The National Magazine of Business Fundamentals

CREDIT MONTHLY

Vol. 32, No. 5

MAY, 1930

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John J. Geddes, President of the Robert Morris Associates introduces Credit Monthly to the banking field—page 18.

An interview with the French Ambassador, M. Paul Claudel—page 7.

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CREDIT MONTHLY

The National Magazine of Business Fundamentals

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Photograph taken from under the right hand of the Statue of Washington on the steps of the Sub-Treasury at Broad and Wall Streets, with House of Morgan in foreground and new banking institution towering above. © Ewing Galloway.

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Looking Ahead

In the June CREDIT MONTHLY, Colby M. Chester, Jr., president of the General Foods Corporation, gives his interpretation of credit mergers and new developments in the food industry that vitally affect wholesalers. An official of the New York Central Railroad will write on the place of the railroad in our economic structure.

Lewis E. Pierson, chairman of the Board of the Irving Trust Company, contributes a significant article to the banking section of CREDIT MONTHLY on the spirit of progress in banking.

Other articles will be: "Fundamentals of Credit" by one of the leading credit executives of the country, "Forestalling Retail Failures," by T. J. Mullane of the Crescent Mfg. Co., Seattle, and a discussion of our National Bad Debt Loss, by L. F. Rosenberger of the Coleman Lamp & Stove Co., Wichita.

CHESTER H. McCALL, Editor and Business Manager

Kendrick W. Diller, *Eastern Advertising Manager* — Clifford T. Rogers, *Marketing Service Manager* — Philip J. Gray, *Western Advertising Manager*

Owned and published on the 5th of every month by the National Association of Credit Men, One Park Ave., N. Y., President, Lawrence Whitty, 327 W. Van Buren St., Chicago; Secretary and Treasurer, Stephen I. Miller, One Park Ave., N. Y. Subscription price $3.00 a year, 25 cents a copy. Canada, $3.50. All other countries, $4.00 postpaid. Entered as second-class matter April 5, 1927, at the Post Office at New York, N. Y., U. S. A., under the Act of March 3, 1879.

The N.A.C.M. is responsible only for official Association statements and announcements printed herein. The Credit Monthly is indexed in the Industrial Arts Index of the H. W. Wilson Co. and is a member of the Audit Bureau of Circulations.

........EVENT AND COMMENT........

Mergers and Mammoths

THE HUGE ANIMALS that stalked through the prehistoric mornings of the world carried within their giant frames the potentiality of extinction. The brontosaurus, mammoth, pterodactyl, and stegosaurus were huge and powerful, gigantic organisms with single lives spanning two or three centuries. The very size and power of the prehistoric animals doomed them to extinction for their brains were inadequate to the task of adapting their size and power to the requirements of a changing world. The intelligence quotient of the mammoth was higher than the intelligence quotient of many of the smaller animals that existed in the same geologic age. The mammoth has gone. The smaller animal still roams the earth. The animal kingdom gives us this striking example of what happens when there is a lack of proportion between brain force and the power and size of an organism of which the brain is the life dynamo.

Do the giant business units in this civilization of ours carry within their organic bodies the potentiality of extinction? Is there generating within civilization itself the relentless germs of decadence? With business, commerce and civilization moving steadily zenithward, such questions seem absurd and incongruous. The foundations of our life and business were never sounder. We have huge reservoirs of wealth that can be translated into expansive, constructive forces. In the decade just ended the United States has added 23 billion dollars to its annual income, which is estimated at around 90 billions. The average salaried employee receives twice as much today as he did twenty years ago. About the same ratio of increase holds for the wage earner. More than 65 million people in this country are insured for 100 billion dollars. One comparison from the industrial category will show how we have progressed materially. Over seventy per cent. of the American people now live in electrically equipped homes. While our population has increased 25 per cent. in fifteen years, the generation of electricity has increased 625 per cent. With these tangible, indisputable evidences of economic soundness, prosperity and growth is there any basis for asking whether the giant business units of our civilization carry within them the potentiality of extinction? Is there generating within civilization itself the relentless germs of decadence?

A book could be written, either in proof or in refutation, of the affirmative answer to these questions. There are, however, several springboards of fact from which we can leap into a lake of thought. As mergers and consolidations increase the size and power of business, banking and industrial units the necessity for strong, forceful leaders becomes more imperative. The man, or men, who have engineered a merger are generally capable of administering the new organization successfully. But who will replace them in ten or fifteen or twenty years? As the number of business organizations decreases the leader potentiality of the country decreases, for argue as you will, if you are going to train thousands of men to climb you need thousands of ladders for them to train upon. Large scale economies in administration and operation are significant but what of the large scale loss in individual initiative and leadership? A civilization is founded and perpetuated upon the strength and number of its leaders. Is it folly to ask if a civilization is generating within itself the relentless germs of decadence when the ratio of number of leaders to number of people is decreasing steadily, and when the social and economic organization makes no provision to check this dangerous loss?

Bankruptcy Revisions

IF YOU START a small snowball slowly rolling from the top of a high hill it will take on more bulk and weight with each revolution, gaining in impetus as it gains in size and weight, until it is a huge sphere shooting down the hill with speed, force and power. In this issue CREDIT MONTHLY sets in motion a movement of the greatest importance to the credit interests of America; and every executive reader of CREDIT MONTHLY should enlist his aid to help give speed, force and power to this movement.

For several years it has been felt that bankruptcy administration was characterized "by serious abuses and malpractices upon the part of attorneys, receivers, trustees, appraisers, custodians, auctioneers and other persons, associations or corporations", as Colonel Donovan says on page 17 of the April issue in his article on "The Proposed Revision of the National Bankruptcy Act." Bankruptcy administration has become a burden to the courts, a long drawn out, expensive and uncoordinated process. The credit efficiency of the country has been seriously impaired,

and the attitude of business men in general toward bankruptcy administration has been one of distrust and disgust.

Colonel Donovan told in his article in the April Credit Monthly the nature and scope of his investigation, analyzing carefully both the economic and legal angles. Be sure that you have read every word and familiarized yourself with the background. Then watch each issue of Credit Monthly for developments. The revisions will be presented tc the National Association of Credit Men Convention at Dallas for approval of the delegates. A Special Bankruptcy Committee of the Association has also been studying this problem for over two years and working in close co-operation with Colonel Donovan.

Credit Monthly is behind this movement from inception to the acceptation. Within a reasonable time the revisions will come before Congress for consideration. Credit Monthly is the spokesman of the credit interests of the country in behalf of the revisions of the National Bankruptcy Act. Convey any ideas or plans you may have to Credit Monthly and they will be utilized with especial emphasis. Colonel Donovan has done his job. Now it's up to us. Let us put everything we have into this movement, giving it the speed, force and power that will carry it through to final acceptance by Congress.

■ ■ ■ ■

Ringing the Bell

"You have certainly rung the bell", said a Credit Monthly reader to the Editor of Credit Monthly when he was on a recent trip through the middle west. "I have been reading Credit Monthly since the first issue and it has long been my favorite magazine. I say you have "rung the bell" because your advertising pages hold as much interest for me as the regular editorial pages."

"That, at least, is a strong compliment to Credit Monthly advertisers", was the answer.

"I think it is just as strong a compliment to the editorial and advertising policies of Credit Monthly," the credit executive answered, "for it means that you must have a definite policy of accepting only those advertisements that, in your opinion, have as much reader interest for your subscribers as your regular editorial pages."

Reactions of this kind from Credit Monthly readers are highly pleasing. Reader-interest and advertising interest are indissolubly related. Credit Monthly interprets its advertising responsibility to its readers very strictly, admitting to its pages only such advertising that is significant to the interests and problems of its readers. A Marketing Service Department has been instituted to study the Credit Monthly market, determine the needs of its readers, and select only such advertising that will meet and satisfy these needs.

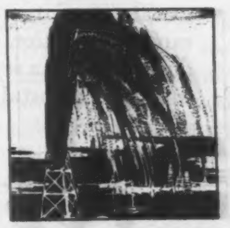
Credit Monthly advertising is a readers' service that brings the *reader-buyer* together with the *advertiser-seller*. Advertising interpreted in this sense fulfills a sound economic law, facilitating the functioning of the machinery of supply and demand. The responsibility to the reader allows Credit Monthly to publish only that advertising which is of unquestionable benefit to him. Credit Monthly does not offer space in the accepted sense, it offers a service that must be suitable to both buyer and seller. Whenever you buy equipment or service buy that which is advertised in Credit Monthly. You will be helping your magazine and its advertisers. And meanwhile we will keep the bell ringing.

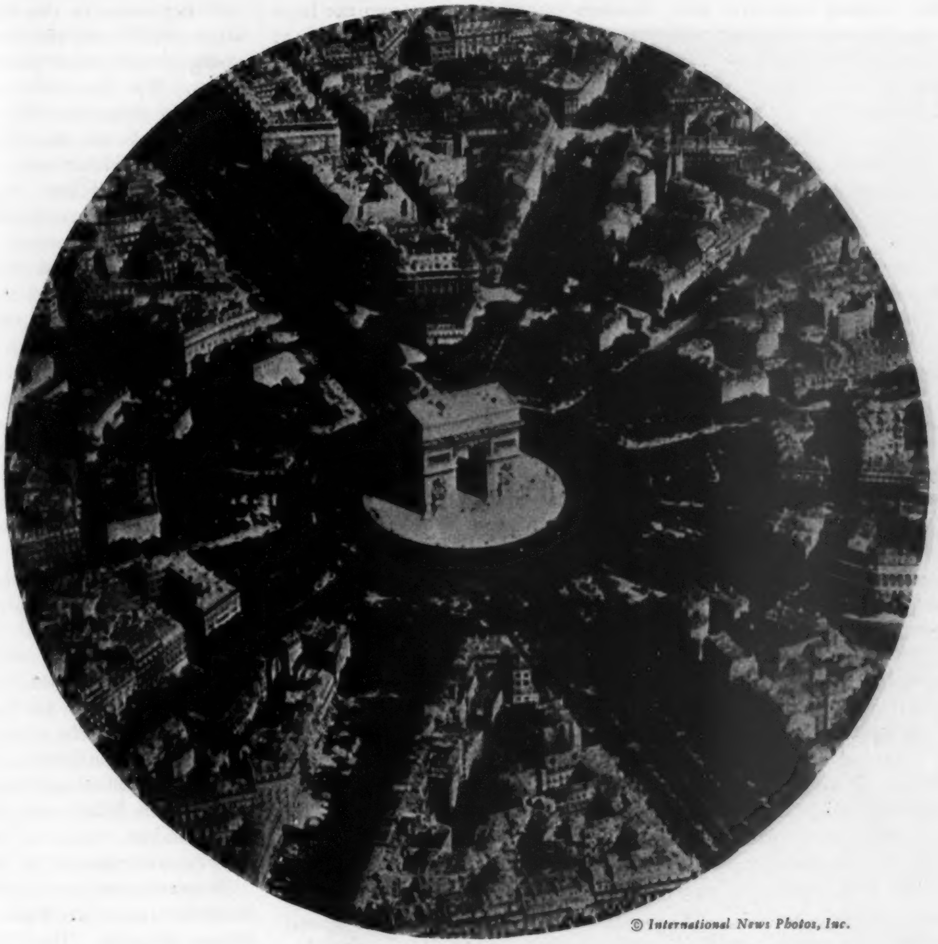
■ ■ ■ ■

Wild Mary Sudik

Wild Mary Sudik is wild no more. Her violent, gushing power has been tamed. For eleven days the most sensational gusher of the Mid-Continent oil field gushed a stream of oil four hundred feet into the air, four times the height of the steel derrick over the well. The earth was oil soaked in a ten mile area, and traces of the brown stain were found even eleven miles away. Forty-eight thousand barrels poured out daily—$75,000 vanishing into the air every twenty-four hours. Day and night engineers fought to cap the gushing stream with its pressure of 2,000 pounds to the inch. Twice the flow was temporarily halted. Twice it broke out again. At last the artesian power was checked and the stream of rich, black gold held for the use of man.

Wild Mary Sudik was sensational. Her story is dramatic. It was headline stuff! The attention of people was attracted and held. Seventy-five thousand dollars melting away into the air every day. A catastrophe! A shameful waste! And yet but few people even lift their eyebrows in contemplation of the gushers all over the country that are pouring far more than seventy-five thousand dollars into thin air every day. These are the gushers of credit losses: credit losses from over-extended terms, from fraudulent bankruptcies, from poor selling methods and poor merchandising, from inefficient credit management and from a failure of many owners of businesses to properly understand the important role of credits and credit administration. But these credit gushers are not Wild Mary Sudiks—they have not been *sensational-ized*. Isn't it one of the major duties of credit executives to sensationalize these credit gushers—until concerted and expert effort checks the staggering waste in this golden stream of credit and holds it for the benefit and use of man?





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"You Cannot Make An Omelet Without Breaking the Eggs"

An interview with M. PAUL CLAUDEL
Ambassador of France

By Chester H. McCall

THERE is an old French saying, "You cannot make an omelet without breaking the eggs". This maxim typifies French diplomacy as it is today and has been for many years. France, it seems, has always been sucked into the vortex of diplomatic intrigues, international controversies and devastating wars. Yet today she stands as one of the most prosperous nations in the world, secure in a position that economists speak of as "French prosperity."

The principles underlying the saying that "you cannot make an omelet without breaking the eggs", have been wisely applied throughout the reconstruction period following the war. France has conducted her negotiations on the theory that some industries had to suffer more or less in order to obtain concessions of greater importance to the country at lårge. Her statesmen and diplomats have maintained what might be called the "larger balance" in contradistinction to the "smaller balance".

The "larger balance" means that there is one great set of national scales kept in proper balance instead of five or six sets of smaller scales kept in an equally proper balance. France has learned that it is much easier to keep one great set of scales balanced than it is to keep six small sets of scales balanced. It is in this larger vision and larger balance that France has expanded outward into a new economic emergence.

The decade of prosperity that ended on January 1, 1930, was largely the result of an intensive cultivation of the domestic market. If January 1, 1940, is to close another decade of American prosperity, it will probably be the result of an intensive cultivation of foreign markets. France will be one of the key countries in this bigger picture, and

the credit and business executives who understand the French viewpoint, the industrial and economic situation and the principles of the "larger balance" will be well prepared to fulfill the requirements of "international-mindedness" that are rapidly becoming imperative to the successful American business executive.

In order to get an exact interpretation of France and French methods of business and commerce I went to His Excellency, Paul Claudel, Ambassador from France, and asked him to answer a few questions that I felt would clarify misunderstandings that exist in the minds of many American business men. I also knew that the Ambassador could probably give an economic rendition of the French situation as it interests the credit executive who may soon be called upon to judge France as a credit risk.

Ambassador Claudel has been in the French diplomatic service for almost forty years. He has served his country throughout the world, and was stationed for several years in far away Indo-China. He has observed at first hand the development and growth of the French Colonial empire. He is thoroughly familiar with commercial practices, principles and customs as promulgated by France, both at home and abroad. His wide experience and long association with commerce and trade throughout the world qualify Ambassador Claudel to answer, with unusual authoritativeness, questions of economic import and international significance.

The Ambassador received me in his office at the Chancery of the French Embassy at 2034 16th Street, N.W., Washington, D. C. The desk from which he directs the affairs of France in the United States looked no different from the desk of the average business executive. But from the large portrait of Washington on the wall at the Ambassador's right his office takes on a dignity that fills the entire room, a dignity that one feels emanating from the nicety in arrangements, tastes and atmosphere.

After my interview with the Ambassador was over he sent me to the Embassy, where Madame and Mademoiselle Claudel received me with the same graciousness that characterized my reception at the Chancery offices. I was conducted through the various rooms in the Embassy, after which I carried away with me a feeling of ease and warmth that one invariably gets from a French home. The French are a people of nuances. There is always a subtleness, a pleasing naturalness in the impressions they convey, even in the most usual of their daily activities.

A Man of Peace

Ambassador Claudel was one of the strong forces behind the Kellogg Pact. He worked closely with Secretary of State Kellogg in the drafting of that remarkable document. M. Paul Claudel has always been a man of peace and competent authorities tell me that the Pact is based upon much more of the Claudel idealism than the people of the world will ever realize. The French Ambassador kept himself well in the background, serving as far as the general public is concerned, as intermediary between Premier Briand and Secretary Kellogg.

The whole world seems to be "prosperity-minded" so I felt that the first question should be on what many writers and economists are calling "French prosperity." During the recent depression in this country it was often pointed out that France was enjoying a wave of unprecedented prosperity. Was this condition actually existent in France? Why did France seem to have no unemployment problem? Why did her money market show solidity and stability? I gave a brief resume of these conditions, to which the Ambassador answered:

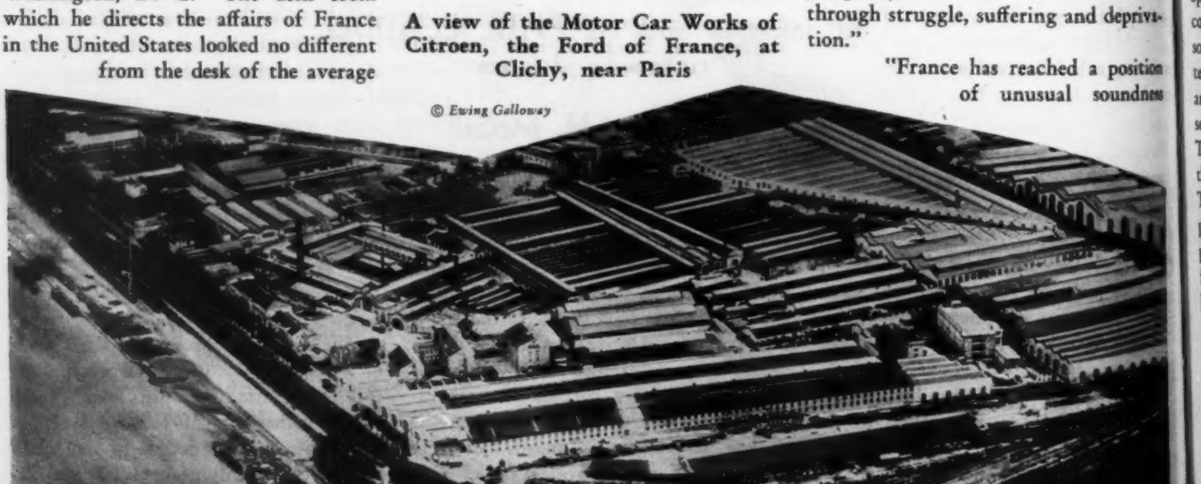
"When people speak of French prosperity they probably mean that France is in a somewhat better and more flourishing condition than several of her neighbors. Financially, France is in a pleasing condition. The Bank of France has metallic reserves corresponding to 49.36 per cent. of liabilities, and gold reserves second only to those of the United States. The ratio of notes in circulation to gold deposits is the best we have ever had and the abundance of foreign credit indicates that the franc is one of the soundest currencies in the world.

"Rapid development of industry and a lack of unemployment are other factors contributing to the healthy condition in France. The reason for lack of unemployment in France is a grim one. Over 1,400,000 of our young men and workers were killed in the war, and several hundred thousand maimed and crippled are supported by the nation.

"France's rise to its present sound economic status has been over mountainous obstacles. The richest parts of France were devastated by the war and have gone through a complete rebuilding and reconstruction. The franc has been stabilized at about one-fifth of its value and all creditors of the state have lost eighty per cent. of what they owned. So you see, whatever degree of prosperity France has attained has been through struggle, suffering and deprivation."

"France has reached a position of unusual soundness

A view of the Motor Car Works of Citroen, the Ford of France, at Clichy, near Paris



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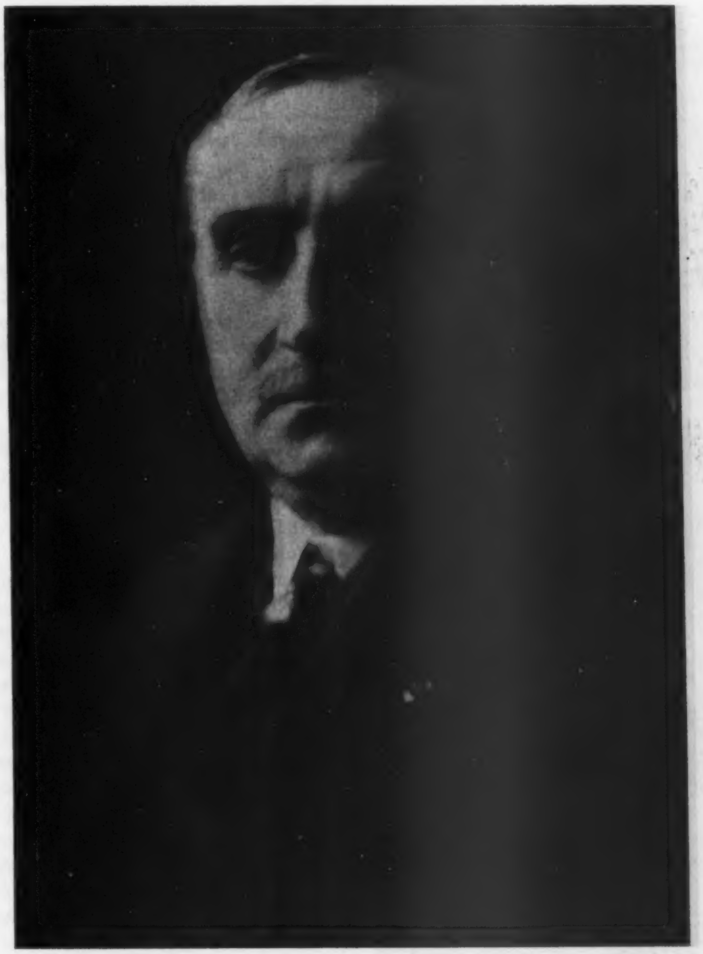

in her credit condition. What are the chief factors contributing to this credit strength?" I asked.

"Our credit has been strengthened because France has settled her external debts by obligating herself to reimburse to her creditors fifty per cent. of her debts while French creditors themselves receive only twenty per cent. The reparations settlements have been made possible because France has agreed to receive payments of only forty billion francs, when she has already spent one hundred billion francs in the reconstruction of devastated regions. Taxes have also been levied on the French people that constitute a real burden. The fiscal charge, for example, amounted to 13.7 per cent. of the national revenue in 1913, and today it has increased to thirty-five per cent., which increase is greater than that of any other country. Figures will show that the French taxpayer is taxed three times more than the American citizen is taxed. There is a great danger here also. France needs initiative but when the tax burden becomes too heavy it endangers and paralyzes initiative. France is sound today because of sacrifices and burdens and a never wavering persistence on the part of her people."

"Doubtless the French Colonial empire has also been an invigorating asset during these reconstruction years", I said.

Development of Colonies

"Yes, we have had very satisfactory results from all of our territory outside of France. When I speak of France I include all French territory. Great energy has been expended on the development of French colonies. And this colonial administration has been handled so consummately that there is real content among all French subjects. There are five million square miles of overseas territory under the French flag. This is a million square miles more than the whole of Europe, including Russia. The population of the whole French empire is over one hundred million. Many people in analyzing France forget these facts. The exploitation of this territory has been particularly successful. I might give you a few figures to indicate the importance of the French colonies from an economic viewpoint. In 1927, North Africa produced more than four million tons of phosphates or fifty per cent. of the world output. Madagascar ranks third in the world for graphite production with 15,000 tons. Indo-China ranks fourth in the world for rice production with seven million tons. The development of trade of overseas territories with France alone reached in 1929, 335 million dollars of exports and 258 million dollars worth of imports. In our program of national equipment a sum of 141 million dollars out of a total of 336 millions is to be devoted to our colonies, for we realize that our future lies in our colonies and we intend to do everything we can to develop them to the utmost."

Among business men there is probably more discussion of the tariff than any other single subject. The tariff affects in so many ways the economic status of this country with other countries. The subject is so controversial that it is dangerous to start a discussion on it, but I decided to ask the Ambassador to give me in a general way his views on tariffs.

"The whole subject of tariff is a difficult one to talk upon", he answered. "There is such an intermingling of political, sectional, economic, national and international causes and effects that it would be unwise for me to discuss the matter in any way but to give an example of why I believe a great many unnecessary misunderstandings exist.

"To illustrate let us take the eighteen per cent. tax on profits which is levied by the French government. The purpose and nature of this tax is generally misunderstood. Whenever the tariff is mentioned the eighteen per cent. tax is usually mentioned in connection with it. I believe the American business man should understand the true nature and purpose of this tax. It is not proper that he should consider it a discrimination against American branches in France.

Taxing Profits

"Back in 1872 the French government passed a law which levied taxes upon the net profits made by a company. Until the period following the war this tax caused no excitement because taxes were low and there was no reason for the law to be emphasized. As the law stands at present the French government levies a tax of eighteen per cent. on the net profits, or dividends, of a company. This law applies alike to

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A modern water-power plant in Southern France

French companies and to foreign branches located in France, ***and does not discriminate against the foreign branch.*** Yet many people say that this law imposes such a high tax that American branches cannot do business in France.

"The real difficulty comes from the fact that there have been foreign branches located in France that have manipulated their business in such a way that the books showed no profit, exempting the branch from the tax. Investigations disclosed that the branches were not honest in their accounting and reports, and, of course, the French government took steps to protect itself in such cases.

"As a method of protection France enforced the law to exact the tax from the branch according to the net profits of the parent company, based upon the amount of business done in France. For example, suppose a tire company in the United States sells one million tires throughout the world, of which total one hundred thousand are sold in France. The tire company shows a good profit, but the French branch just breaks even. According to the French interpretation the tire company branch in France should pay eighteen per cent. of the ten per cent. of the profits made by the parent company, because ten per cent. of the business is legally transacted in France. With a protection of this kind foreign branches will not try to handle their business so that it will show no profit, as several branches have been known to do."

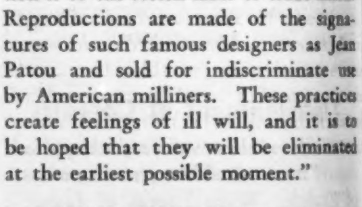
"But suppose," I asked, "that the branches of the tire company throughout the world all show a profit with the French branch only as an exception. If it can be proven that the French branch did not make a profit, would the eighteen per cent. tax still be levied?"

"The branch would be in the same position as a French company", the Ambassador replied. "If a company shows to the satisfaction of authorities that it has not made a profit no tax would be levied. If this situation is analyzed carefully anyone will see that it contains no element of unfairness, nor does it discriminate against American branches in France. Unfortunately, misunderstandings in matters of this kind go unexplained and often react against the natural good-will that exists between the peoples of France and the United States."

The next question I asked the Ambassador pertained to the patent and copyright situation, which does not afford proper protection to French designers and inventors.

"An unhappy circumstance exists in regard to patents and copyrights", Ambassador Claudel explained. "At the present time a French inventor or designer is not protected in the United States unless his unit is registered, patented or copyrighted in this country. The average cost for this is around fifty dollars, and as there is so much uncertainty about a design or article being successful in the United States it is uneconomical to go through this procedure until its popularity and success are tested. This protection is insured through agreements with most of the European countries, but not as yet between the United States and France.

"In the millinery field we find instances of great unfairness. There are many stores in the United States that take a French design and reproduce it without any consideration for the French originator. Label companies reproduce the exact signatures of the trade marks of French designers and sell the labels at around ten dollars a thousand to milliners who put them in the hats they sell. The label usually says "reproduction" above the name or signature. Actually, the only reproduction is of the stolen label or trade mark. Reproductions are made of the signatures of such famous designers as Jean Patou and sold for indiscriminate use by American milliners. These practices create feelings of ill will, and it is to be hoped that they will be eliminated at the earliest possible moment."



Ambassador Claudel also pointed out that business men in the United States who contemplate doing business in France should communicate with the French Commercial Attaché, who will be very glad to go into every phase pertaining to French commercial customs, procedures and systems.

After my interview with Ambassador Claudel was over I felt that the old French saying "you cannot make an omelet without breaking the eggs" is a maxim that every business man can well afford to keep in mind and emulate, for after all, individuals, like nations, must concede on minor points if they are to obtain results of major significance.

■ The credit and business executive cannot analyze domestic business conditions without understanding the major influences of foreign trade. This article tells

What Foreign Trade Means to You

BY PHILIP D. WAGONER
President, Underwood Elliott Fisher Co.

THE principal value of foreign trade to American industrial companies arises from the greater diversification of business which a company has when the ultimate consumers of its products are in many quarters of the earth.

In days past, it was the experience of those American industrialists who pioneered the foreign field that changing economic conditions in the United States, with their consequent fluctuations in the buying power of the population, were not reflected in foreign countries.

To those who were willing and able to create an organization abroad for conducting their foreign trade, it was of great benefit to have a continuing lively market for their products in Europe, South America or the Orient while their domestic business was overshadowed by a business depression. It was true that there were also fluctuations of buying power in the foreign field, but these came usually at times when the United States consumer was calling briskly for all the goods factories could produce.

Among those most closely in touch with foreign business at the present time, there is a strong and growing impression that the days of such isolated phenomena are over. The growing financial, commercial and industrial interdependence of the nations is making all of them more responsive to conditions outside their own borders.

According to the observations of our own organization—and we sell our products in 56 countries and principalities—the American stock market break of last fall and the reduction in business which it forecast are being reflected all over the world in greater or less degree. It is probable that future waves of prosperity and depression will circle the globe with less and less obstruction by political boundaries.

It is not to be assumed, however, that these changes in world conditions have denied to American industry all benefits of foreign trade. While business trends throughout the world may be identical in direction, they still vary greatly in intensity. Thus, the decline in some lines of American business which started around the end of 1929 has been felt abroad appreciably less than at home and, abroad, it has been felt much less in some countries than in others.

Furthermore, there is very apt to be a disparity in point of time between the appearance of a new trend in various countries. Recently, we have seen the business trend reverse its direction in some countries appreciably before the same tendency appears in other countries.

Solving Production Schedule Problems

These two qualities make foreign business valuable to American industry because they lend flexibility to operations. The time lag between the appearance of depression in the United States and in foreign countries where a manufacturer has outlets, permits him to ship goods from domestic markets which will no longer take them to foreign markets where demand still remains and thus enables him to answer one of the most critical problems which depression brings to some lines of industry, particularly the production schedule problem. In several American industries producing highly manufactured articles partaking of the nature of luxuries, distributing channels have lately been disorganized by the competition of manufacturers to get back the working capital tied up in large inventories.

If some of the manufacturers in these lines had had foreign outlets normally capable of handling 25% to 40% of the factory production, they would still be in business today, the general level of domestic prices for their products would probably be at cost or above it and I am quite sure that domestic sales would be about as large, in units, as they are now on a price-cutting basis,

The fact that many foreign countries are feeling the effects of our market and business decline less than we, is a boon to the American manufacturer with adequate foreign outlets. Business men of all degrees are nowadays familiar with the fact that fixed charges produce a "break-even point" above which profits mount and below which losses accrue with a rapidity disproportionate to the change in sales volume. This condition is more aggravated in the case of enterprises whose profits are derived from a small margin of profit on a large volume of business and as a typical instance, possibly some of my readers may recall the railroad company report, made public a few weeks ago, which showed a

(Continued on page 39)

CONSTRUCTIVE CREDIT

The basis for American commercial and industrial supremacy

BY DR. STEPHEN I. MILLER

A JOURNEY around the Mediterranean puts the traveler in touch with the ruins of at least seven great civilizations. The weeds grow tall around the broken columns of temples that have been dedicated to gods, nature and man. The imagination, weary in its retrospection, pauses on the threshold of its day—our day—to take inventory of religious, political, social and economic accomplishments; it pauses deeply conscious of the fact that enough wealth has been produced and destroyed, during the past five thousand years, to have endowed in luxury the two billion people now living on this earth.

Only 180 years—three generations—separate us from that period when Britain began her triumphant march toward industrial and commercial supremacy. By 1750 England had centralized her government, diversified agriculture, promoted trades, acquired colonies, built a navy and launched a merchant marine. In short, she had acquired sufficient economic stability to inherit the full advantage of the industrial storm which was about to break. Between 1750 and 1825 a sequence of inventions, beginning with the flying shuttle, passing on to the spinning "jenny," the "mule," the power loom, the steam engine, ore smelting, pottery, canals, highways, the locomotive and the steamboat, laid the foundation for an industrial empire. Britain was ready in tradition and adaptation, in vision and application, in legislation and diplomacy. To this day the world pays homage to that mighty land whose industrial and commercial grip has never been broken. Manchester, Birmingham, Edinburgh, Belfast, Liverpool, Nottingham still challenge the world in textiles, hardware and commerce. And so the preparation of centuries made England the birthplace of the industrial revolution.

The power to put off the old and put on the new evolved a modern economic organization. A high regard for law and order as well as for the most advanced interpretation of the liberty of that day set the stage for an industrial and commercial leadership that has many times been challenged, but never supplanted.

An economic analysis of the period 1750 to 1900 prepares the way for our own industrial age. For many years England attempted to control the colonial sources of raw materials and the market for her finished products. This policy brought about the loss of the American colonies, brought about foreign wars and stimulated command of the sea by warcraft and merchant marine. By 1850 England had inaugurated a policy of free trade, feeling that her industries were sufficiently strong to withstand the competition of the world. Free trade also contributed low priced foodstuffs, the basis for low labor costs.

Three great economic forces carried Britain into industrial supremacy—a navy supporting a merchant marine, a strong consular system gathering vital trade information, and the Bank of England financing industry and commerce. The nineteenth century was the era of production and the development of transportation lines. The close of the nineteenth century found the star of industrial empire hovering over the British Isles. However, during the last quarter of the nineteenth century two nations, Germany and the United States, were making giant strides toward economic recognition, and when civilization passed

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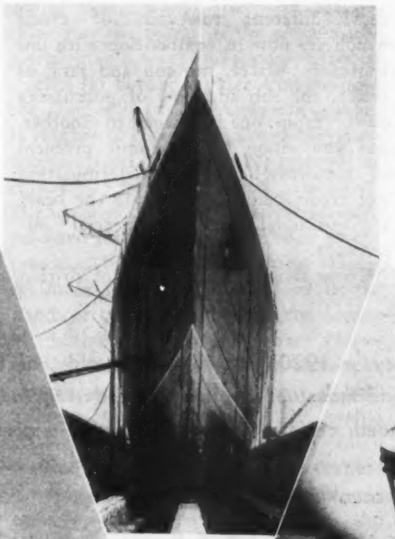
into the twentieth century a new economic emphasis had dawned. It was an emphasis destined to change the entire industrial map.

Today, in 1930, we are in the midst of the second industrial revolution. Leadership in the twentieth century is destined to find its center of gravity in that land best adapted to meet the economic requirements of today.

The mind capable of following the sequence of the past often finds it difficult to detect the dominant, history making forces of today. Let us briefly attempt the inventory, deeply conscious of our limitations, and cognizant of the complexity of the present economic changes. That 1930 is emphatically different than 1900 can not be denied; that sweeping changes in the economic order are taking place is readily recognized; that old methods and organization in production and merchandising are being supplanted by sweeping reconstruction can be easily observed.

One of the first and most important observations in this business age is the intensified interest and accomplishment in mechanical invention. The conquest of the air and the control of sound waves are but a part of this emphasis. Everywhere machines are competing with human hands. Visit the modern farm, the mine, the mill; observe the changes in transportation, the revolution in building and construction, the application of electricity; consult the patent office records and confer with labor leaders: all this leads to one conclusion—the revolution in mechanics. Is it any wonder that the ratio of capital to the total output of business is increasing more rapidly than the ratio of labor; that volume and mass production are the primary economic requirements of the day; that industry shifts more readily from one section of the country to another? Let no man minimize the importance of the great modern mechanical emphasis upon the increase of wealth, lower unit cost, standards of living, employment, immigration and the size of the family.



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Mechanized Transportation Conquers Time and Space

The second revolutionary change in modern business is the great increase in mergers and combinations. Beginning with the gigantic steel combine early in the century, there has developed in recent years a wave of business integration, the like of which has never been experienced. This movement does not solely concern production; it has to do with the recent growth of chain store operation and branch banking. Here is a change that has resulted from cut-throat competition; from a desire to control supplies; from promotion profit and from an opportunity to reduce the cost of production and distribution. Here is a change that will have much to do with the launching of new business in the future; with the relation of government to industry; with business ethics and with the interest of the individual in his vocation or profession.

The third aspect of the second industrial revolution is the upheaval in the nineteenth century methods of merchandising. For many years there has been a lack of economy in distribution. Retail stores have multiplied by thousands. The average life of these stores has been short. There has been a constant stream of men bringing their small savings to the altar of merchandising ambition. Without a knowledge of accounts, buying, advertising, turnover, markup, credits, collections and service they have diluted the average amount of business done in retailing and wholesaling, thereby increasing costs of distribution and prices to consumers. Handicapped by the lack of business understanding and adaptation and strangled by competition, they have constituted an unbroken business death march. During the past ten years the net cost of being "over-merchandised" has been billions of dollars.

Into this picture of merchandising desolation and chaos has come the chain store, quickening competition, hastening elimination. This revolutionary change in distribution has been characterized by some as the beginning of the end of the "independent"; by others as an incentive and stimulus to better merchandising on the part of the small dealer; by a few as a temporary marketing fad or promotion that will disintegrate by its own weight and complexity. These sweeping changes in the marketing system have undoubtedly hurried many a retailer into bankruptcy. On the other hand, they have introduced far reaching economies, stimulated adaptation and brought about greater co-operation between wholesaler and retailer.

It might be well at this time to bring to the chain store enthusiast a warning taken from the experience of business administration. Stretch out a series of business units from East to West, North to South, and observe the neutralization of economy as the system becomes complex and far flung! Retailing is essentially a service. The merchant is a host, the customer a guest. Success in a store depends upon consideration of detail, and a human equation closely bound up with ownership. The large scale farmer has never put the small farmer out of business. I predict a profitable future for both the farmer and the independent retailer who observe the economies of the day.

A fourth major factor in the present day business revolution is the expansion and intensification of credit. Not many years ago, from the point of view of the historian, commodities were exchanged for commodities in a system of barter. Not many years ago, possibly within the experience of many of my readers, commodities were largely exchanged in terms of cash. In my boyhood days, the request to have a thing "charged" was spoken in a whisper. Today, industrial America and the progressive industrial world do business on the basis of credit. The United States, with eight billion in currency, has an annual wealth production of nearly one hundred billion. Bank clearings in a single year amount to more than two-thirds of a trillion. Retail credit, in instalment sales, amounts at any one period of time to more than eight billion, while the volume of open book accounts can scarcely be approximated. To this vast sum add billions in commercial credit, billions in brokers' loans, billions for building and construction, billions for foreign investments, billions for the promotion of new and expanding business and billions for agriculture. In a single year the demand upon our credit facilities is colossal; a demand far in excess of the greatest financial vision of thirty years ago; a demand that has not yet run its course; a demand that has its ultimate limitation in terms of gold. Draw close to these different reservoirs of credit which are now in competition with one another! Watch the ebb and flow of credit, the ebb and flow of purchasing power from one reservoir to another, and you vision the economic problem of tomorrow! Credit determination and credit control constitute the heart of industrial and commercial supremacy.

Three thousand miles west of Britain there now takes place a series of economic changes destined to determine industrial leadership for the next hundred years. Into the hands of the United States have been placed the blessings and dangers of an intensified application of machinery, which, fortified by rich natural resources and administrative genius, make for low unit cost with high wages. By virtue of business consolidation vast economies have been made possible—economies in production and distribution, economies resulting from a better adaptation of supply to demand, economies in greater business stability and continuity. Through the introduction of sweeping changes in merchandising methods waste totaling hundreds of millions annually is being eliminated—a waste that has impeded the channels of distribution, curtailing production and restricting consumption. In the introduction of credit elasticity a new volume of purchasing power has been provided, the adaptation of production and distribution to changes in mechanics has been made possible and the development of new markets made imperative. No country in the world has staked out such an industrial and commercial empire. Unhampered by tradition, unexhausted by war, unlimited in resources, the United States in 1930 occupies the same relative position to the industrial world as Britain occupied in 1750. Such is the transition of industry, the destiny of leadership and the responsibility of progress.

How frequently the son of a great leader, notwithstanding an endowment in wealth and opportunity, dissipates a fortune and breaks the continuity of power in a family line. Have we not observed the passing of powerful nations, the failure to take advantage of political, social and economic opportunities; the destruction of rich resources and the inability to maintain a vigorous constructive leadership? If the American people fail to conserve resources, fail to develop high business standards, fail to express vision in legislation, organization and co-operation, the economies inherent in the second industrial revolution will pass to other hands.

At this time the credit structure of the United States must be fortified. No nation is rich enough to carry an annual bad debt loss of close to a billion dollars. When competition causes cut-throat credit service, losses are not merely a competition of dollars but a breakdown of National character. If the credit grantor continues to set up weak ineffective retailers he will slowly diminish the buying power of the public through waste and increased cost. If credit terms are without honor, then the entire business structure will be subjected to gang warfare. Credit is not a commodity that can be sold on the auction block or dispensed at cut rate office desks. The man who deals in credit deals with character. "Charging off" bad debt losses is not merely a ledger transaction; it is more than a

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■ ■ ■

Stretch out a series of business units from East to West, North to South, and observe the neutralization of economy as the system becomes complex and far flung!

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The man who deals in credit deals with character. Shiftless credit debauches the recipient and de-stabilizes industry.

destruction of profits or capital; even more than a dollar waste. Shiftless credit debauches the recipient and destabilizes industry.

It might also be worth while to observe that there are definite limits to the supply of credit. If the expansion of business for the past few years be continued for the next decade the problem for the future is preeminently a problem of credit economy. The production of credit follows the law of increasing cost, that is to say the greater the demand for credit the higher the interest rate. And it might be added that the acreage devoted to credit raising is not easily increased. This means that industrial progress and leadership will depend not only upon the total amount of credit, but upon its application to the different business demands. The farmer, manufacturer, merchant and laborer are interested in the amount of credit made available to speculators as compared to the amount of credit available for the development of new markets. Credit is a reservoir of impounded buying power. The test of its sufficiency is not determined in periods of business slack but at times when the industrial system is functioning at full speed. The ultimate test of its sufficiency will be found in the general price level. A stricter credit control may not be so far in the future. Six months ago this was appreciated. Today the necessity seems far away. The credit executive is called upon to conserve the credit supply. Profitable and stable business demand it. The old adage, "The mill cannot grind with the water that is past," does not apply to credit. The responsibility of the credit grantor is to be found in his ability to speed up collections and put the water over the business wheel again and again. There is an enormous waste in credit which must be stopped, else we be put upon credit rations. American industrial and commercial supremacy is pivoted upon this responsibility.

There is another responsibility which is impending, a responsibility that will determine the spread and continuity of industrial well being. I refer to business consolidations. That the merger should have in mind the reduction of costs in producing or marketing a given commodity may be taken for granted; that it may do much to reduce business instability may be assumed; that it will strengthen the principle of service by enlarging economic vision would also seem reasonable. But the moral in the present unprecedented wave of consolidations reaches far beyond greater economy and the good-will of the American public. It reaches to the very heart of the institutions of private property, freedom of contract, and individual initiative. Higher ethics and the principle of service have restored the confidence of the people in the business executive. Mergers mean more economic power in the hands of the men who guide the destiny of business. Greater power carries greater responsibility to stockholders, competitors, and the general public. Every merger must be promoted with a reasonable profit and with a high regard for effective business administration. Commodities and services must be sold to the public at reasonable prices and rates. There must be no reward for mere cleverness. The next twenty-five years will test the strength of the new profession of business. Every business man becomes a guardian of public faith. There will be sentiment in business or it will forever fall short of the requirements of a real profession. Law, medicine, education, and engineering have reached their present high standing through a faith in ideals. A loss of confidence in the business executive means more restraint and less progress, more law and less individual energy.

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What Is the Goal?—The Spread of Human Welfare

In the last analysis we are dependent upon the vision of our legislatures, business leaders and educators. After all, the goal is not a mass of wealth accumulated; not a volume of productivity and distribution which necessitates piracy in prices and service; not a temporary prosperity that results from dissipating our timber, oil, ores and land fertility; not merely the development of energy — energy — energy. Rather is it the spread of human welfare, the maintenance of high and thrifty standards of living, the permanency of business and social integrity. Such will be the goal of that Nation that assumes leadership in the second industrial revolution.

Why We Pay a Bonus to Our Credit Manager

BY E. GAMLEN

General Merchandise and Sales Manager,
Frank Werner Stores, San Francisco

The Credit Manager Writes His Own Check and An Additional Check for the Firm, Because He Earns More Than He Receives.

IT is an established custom to pay a bonus to buyers and heads of departments, and it is profitable to do so because the bonus is usually calculated on increased sales that are obtained at a given maintained markup and at a given rate of stock turnover. The store receives a benefit under such an arrangement and it is quite willing to share the benefit it receives with the individual whom it believes is chiefly responsible for the results obtained. Such an arrangement is fundamentally sound, because it provides an incentive to the buyer to do his utmost and guarantees a reward if certain results are achieved. It also offers a protection to the store, inasmuch as the store only pays to the buyer a part (sometimes only a small part) of the total benefit that was derived. In other words, it is a mutual proposition: Both store and employee benefit.

For some reason, a bonus plan for Credit Men is not an established custom. At different times several individuals have discussed plans in order that a bonus arrangement could be worked out for Credit Managers, but so far as the writer is aware all efforts to establish the custom have failed. This is to be regretted because both the stores and credit men generally are suffering a loss as the result. Store managers have undoubtedly overlooked the merchandising of their credit office. There's money in it, and more money can be made by merchandising it.

The Credit Office can be merchandised by applying the same principles to it that are applied to regular merchandise departments. Establish quotas, ascertain turnovers, control bad debts as you control unseasonable merchandise, and if you get the desired results — *Pay Your Credit Manager a Bonus.* We do, and find it profitable. And we do it for selfish reasons.

We want: (1) Increased business; (2) Increased collection turnover; (3) Decreased write-off and we are willing to pay to get these results.

If every credit man throughout the nation will demonstrate these things to his employer, he won't have to sell him the idea of a bonus plan, the employer will want to buy it.

There have always been two major objections to a bonus plan for credit men. On the one hand it was argued that if a bonus were paid to credit men based on increased charge sales, it would have a tendency to encourage lax credit granting, with the consequent increase in losses from bad debts. On the other hand it was contended that if a bonus were paid on increased collections the credit man would drive his accounts too hard and thereby lose customer good-will, which would result ultimately in a decreased volume.

The plan outlined and put into operation by Frank Werner Co. meets these objections, and turns them to advantage. Here is the plan:

(1) A reasonable charge sales quota was established for the year, taking our advertising and expansion plans into consideration.

(2) We established a definite collection percentage quota, being guided by past performance, but setting the quota a little higher.

(3) We established a quota for bad debts —"write off."

(4) We decided to pay:—

- (a) A bonus at a certain percentage on the charge sales that were in excess of the quota.
- (b) An additional bonus at certain percentages on collections that were in excess of the collection percentage quota.
- (c) A further additional bonus at a certain percentage of the write-off that was below the percentage quota.
- (d) We imposed a corresponding penalty, chargeable only against bonus, for collections below the quota, and "write off" above the quota. No penalty is to be imposed if charge sales fall below the quota, as the house may want to restrict credit under certain circumstances.

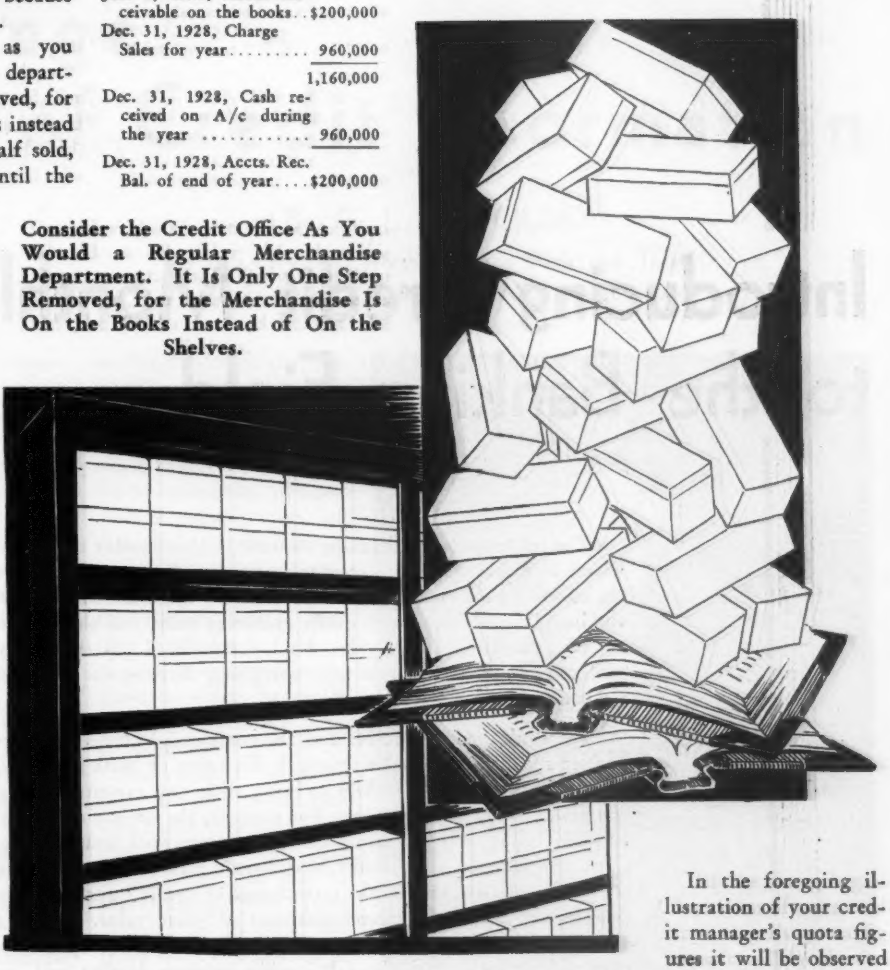
Under such a plan the house is protected, for when passing on applications for credit, several forces are at work in the credit manager's mind that enable him to reach a decision in accordance with our store policy. We desire our credit manager to be neither too liberal nor too conservative in granting credit. In collections we desire him to be persistent, fair and courteous—and to retain customer good-will. If the "write off" is too great he is penalized; if below the quota he is rewarded, but all accounts on the books one year must automatically go into the "write off." Credit office expenses are under control. If under an arrangement such as this our credit manager receives a bonus, he has earned every nickel. In the truest sense we do not pay him a bonus, he pays himself. He writes his own check, and an

additional check for the firm, because he earns more than he receives.

Consider the credit office as you would a regular merchandise department. It is only one step removed, for the merchandise is on the books instead of on the shelves. It is only half sold, and is not completely sold until the money is in the till. Compare now the total of your Accounts Receivable with the inventory at cost in any one of your departments and see where you have the largest investment. Some stores have Accounts Receivable that are in excess of their total inventory. Yet, speaking generally, department managers and buyers often receive compensation in excess of the compensation paid to credit managers. Such a condition does not appear to be equitable and may be partially responsible for slow collection turnover and big "write offs." When stock turnover has to be speeded up one of two things are usually done: (1) the merchandise is marked down, or (2) extra inducements are held out to salespeople and buyers; sometimes both mark-downs and inducements are needed to move the stock, in addition to the extra advertising.

Jan. 1, 1928, Accts. Receivable on the books	$200,000
Dec. 31, 1928, Charge Sales for year	960,000
	1,160,000
Dec. 31, 1928, Cash received on A/c during the year	960,000
Dec. 31, 1928, Accts. Rec. Bal. of end of year	$200,000

Consider the Credit Office As You Would a Regular Merchandise Department. It Is Only One Step Removed, for the Merchandise Is On the Books Instead of On the Shelves.



The credit manager cannot mark down his accounts receivable; it isn't customary. He is not offered inducements to liquidate his accounts more rapidly. He is simply told to speed up his collections and has little or nothing to say in planning the credit and merchandising policies. The day is coming,—truly it seems a long time on the way,—when store managers will be eager to apply merchandising principles to their credit offices and just as eager to compensate their credit managers more equitably.

Let us take some imaginary figures so that we may get a better picture of how our bonus plan works out: Suppose for a moment a store had on its books Accounts Receivable in the sum of $200,000.00, (this is a very moderate sum these days but it will serve our purpose), and that the collection turnover equalled exactly 40% each month, also that the charge sales exactly equalled the sum of the collections. The figures would be as follows:

You will observe that the Accounts Receivable were turned 4.8 times during the year:—that is $960,000.00 cash received ÷ $200,000.00 Accounts Receivable = 4.8 times. Perhaps a survey of your business would reveal that your charge sales were running 5% over the previous year, you would then set your charge sales quota at say an average of $84,000.00 or $85,000.00 a month. (The monthly sales fluctuate, of course, December being highest.)

Now let us say, as in the example given above, your collections exactly equalled 40% and your write-off was, say, 1% of the charge sales: Your credit manager's quota would then be:

		Balances	Cash on A/C 40% Quota	Charge Sales Quota	Reserve for Write Off
Jan.	1/29...	$200,000	$80,000	$85,000	$850
Feb.	1/29...	205,000	82,000	85,000	850
Mar.	1/29...	208,000	83,200	85,000	850
Apr.	1/29...	209,800	83,920	85,000	850
May	1/29...	210,880	84,352	85,000	850
June	1/29...	211,528	84,611	85,000	850
July	1/29...	211,917	84,767	85,000	850
Aug.	1/29...	212,150	84,860	85,000	850
Sep.	1/29...	212,290	84,916	85,000	850
Oct.	1/29...	212,374	84,950	85,000	850
Nov.	1/29...	212,424	84,970	85,000	850
Dec.	1/29...	212,454	84,982	85,000	850
		$2,518,817	$1,007,528	$1,020,000	$10,200

In the foregoing illustration of your credit manager's quota figures it will be observed that:—

(1) $85,000.00 was set as the average monthly quota for charge sales.
(2) That you had determined on a collection quota of 40% of the balance outstanding at the first of each month.
(3) That an allowance of 1% on the monthly charge sales was allowed for "write off" for bad debts.

(The 40% on the balances is figured to the nearest dollar, with the result that the figures shown are $1.20 more than 40% of the grand total balances—40% of $2,518,817 equals $1,007,526.80, not $1,007,528 as shown above.)

Now let us assume that it was decided to pay your credit manager:

(1) 1% on the charge sales that are in excess of the quota, and
(2) 1% on the collections that are in excess of 40% of the average monthly balances, but which shall be increased to 2% if the collections equal 42% of the average monthly balances, also
(3) 10% of the "difference" in the "write off" that is less than the quota.
(4) A penalty of 1% shall be imposed on the difference in collections should they not reach 40%. If collections equal only 38% or less, a penalty of 2% shall be imposed, chargeable against bonus.

(*Continued on page* 40)

Introducing Credit Monthly to the Banking Field

The inauguration of banking content in this number of Credit Monthly, which hereafter is to be a regular feature of all issues, marks a vast stride in the editorial progress of Credit Monthly. There are so many ways in which the banker and commercial credit executive must and should co-operate, that an educational effort of this kind, crystallized in the pages of Credit Monthly, will be welcome as an energizing force in the business structure of the country.

The bank credit executive and the commercial credit executive have many problems in common, and a thorough discussion of these problems in the pages of Credit Monthly will help to bring these two executive groups into closer co-operation and understanding. For example, the subject of Credit Interchange between banks, and between banks and commercial houses, is one of significance and interest, and Credit Monthly's plan to promote mutual co-operation and understanding in the interchange of credit information between these two factors will be an accomplishment of great value. There are so many matters of vital and common interest to both that are open to a more complete understanding of the relationship between banker and customer that there is a real opportunity to do so. I question if there have been presented any series of articles that clearly define the actual relationship between banker and customer and their respective obligations to each other.

Field for discussion along lines of mutual interest is so broad that in undertaking a series of feature articles of pertinent interest to bankers and bank credit executives, Credit Monthly will certainly commend itself most forcibly, and I am sure that the banker will welcome the opportunity of finding this information in the same magazine that carries other editorial matter on wholesale, manufacturing, investment, retail and international credit. As President of the Robert Morris Associates, I heartily approve of this new stride in Credit Monthly's expansion program, and I am sure it is going to develop into a force of great value to the bankers and to the credit executives of the country.

John J. Geddes

President, Robert Morris Associates; Vice-President, Continental Illinois Bank & Trust Co., Chicago

Interchange of Credit Information

By G. L. WOOLLEY
Vice-President, North Carolina Bank and Trust Company, Greensboro, North Carolina

WE have all heard the expression—"Could not see the forest for the trees"—a rather homely saying, but one which might well be paraphrased to apply to the Interchange of Credit Information, for that is so constant that we seldom stop to appraise its value, nor do we consider what might be our plight without it. And yet, it is well that we occasionally take inventory of things of which we make daily use, in order to adjust any malpractices which may have crept into being; or, better, to make these things still further serve our purposes.

It is hard to visualize in this late day any credit man, worthy of the name, who would try to operate his department without the stimulating influence of outside contact. To do so would create an almost insurmountable barrier, with so many limiting factors as to practically make it impossible for him to properly analyze his credit risks: but, further, it would remove such an individual from being part of the high profession of Credit Granters, and, instead, relegate him to that of a mere haphazard extender of credit.

It is improbable that any such are to be found among those who have begun to peruse an article bearing such a title as that above used. Therefore, it should not be necessary to present to the reader any arguments as to the need and value of the free interchange of Credit Information, since all are imbued with that spirit which brings about the desire to co-operate. Therefore a consideration of that phase of the subject will be eliminated and emphasis will be placed on the ethical side. Perhaps there may be made a suggestion or two of some views to which the reader may not heretofore have given thought.

For present purposes, there are four classes into which the Interchange of Credit Information may be divided. The first of these—among the trade—may be quickly disposed of. This should, of course, fully cover ledger experience, together with such supplementary information as may be available concerning management, financial standing, etc. Such information may be obtained either orally by the personal investigator, direct by mail or, best, through the Credit Exchange Bureau of either the National or local Credit Men's Association. In some instances, the special reporting or trade agencies may be employed for this purpose. In this phase, as with all others, it must be remembered that (to quote one of the early writers on Credit, W. A. Prendergast): "One of the principles upon which Credit Interchange is based is that of reciprocity; in other words, if a man contributes to the fund of information upon a credit risk, he should be entitled to receive some information in return for that which he has given."

■ One of the major problems facing banks and business today is that of complete, efficient and ethical interchange of credit information. This is the first of a series of articles to be presented by Credit Monthly on credit interchange between the trades, between banks and the trade, between banks and between officials within a bank. This article is particularly comprehensive, analyzing each of the four classes of interchange.

Secondly, let us consider the Interchange of information between the banks and the trade. It will, no doubt, be readily admitted that it is quite essential for the banker to know whether or not the customers to whom he is lending are taking full advantage of trade discounts (usually a source of considerable "Other Income"). Likewise, merchants want to be assured that those to whom they sell are in proper standing with their bankers, so it is only natural that there should be an exchange of this information between the interested parties. The data given should be specific from both sides and should cover at least the amount of credit or accommodation extended and the manner in which maturities are met. General impressions of the management, etc., are also desirable.

One article in the Code of Ethics

adopted by the Robert Morris Associates is to the effect that all letters of inquiry should set forth the reasons therefor. It has been found of material psychological benefit in seeking information, for the inquirer to indicate in the first letter his own experience. Such inquiries seldom fail to get the desired response. After original investigations have been made, trade checkings should ordinarily be restricted to time of yearly revision of the Credit files. An examination from time to time of the checks of the customers will supply a list of names to whom to write. This is more desirable than to obtain references (one seldom refers to any but a favorable source) and will well compensate for the trouble taken.

It may be well to recall the adage of the old sage who said: "If you have a coin and I have a coin of like value, and we exchange, neither has been enriched by the transaction; but if you have a thought and I have a thought and we exchange, while neither loses, we have both doubled our wealth of information."

Inquiries from the trade are the source of the greatest abuse of the interchange of Credit Information. Where a customer has given the bank as reference, it then becomes the duty of the bank to make adequate and proper answer; but where a mercantile company haphazardly picks out the name of a bank through whom to obtain information (and thus save the expense of an agency report) very little consideration or encouragement should be given. Frankly, when such letters are received by the bank with which the writer is connected, and the subject of the inquiry is not a customer of the bank, a notation is put on the face of the inquiry by means of a rubber stamp to the effect that the subject of the inquiry maintains no account, that the name is not known, and that therefore no information can be given.

There are arguments which may be used both pro and con as to the desirability of using a form letter or questionnaire in making inquiries. The "Pros" may have it as applies to interchange between the trade, but certainly such a procedure can hardly be sanctioned for use between trade and banks. Direct letters, setting forth one's own experience, bring the best results inasmuch as they tend to develop the giving of other than stereotype information, which, after all, is of but little assistance, only specific facts and figures being of any real value.

There has been some discussion in banking circles as to whether a service charge or fee should be levied against reports given to the trade; in fact, some few firms make it a practice to enclose 25c or 50c in stamps with their inquiry or send a similar amount on receipt of information. Frankly, this should not be encouraged. There should be a legitimate interchange of Credit Information between banks and trade on mutual customers, based on a reciprocal service rendered. On the other hand, indiscriminate checkings of the trade through banks should not only be frowned upon and definitely discouraged, but no effort whatsoever should be expended to obtain or give any information.

Much remains to be done to bring about a better understanding of this phase of the interchange of Credit Information. There are weaknesses on both sides which, however, should be easily dissipated by the realization of the interdependence of both banks and trade in matters of this kind. Care by all in the answering of letters of inquiry will best serve in the development toward this end.

Interchange Between Banks

The next class of interchange is one of much importance—that between banks. This has many varying phases and it may be well, at the outset, to come to a common understanding of the ethics underlying all interchange of Credit Information. As a short cut in this direction, I quote excerpts from the Code of the Robert Morris Associates. This was adopted after most careful consideration of the entire membership, which is composed of bank credit officers, and may be fully accepted as the true gospel of interchange.

> "The first and cardinal principle in credit investigation is the sacredness of the replies.
>
> Any betrayal of the confidence implied when credit information is given brands the offender unworthy of consideration or confidence.
>
> Indiscriminate revision of files, when there is no real need of information, is unnecessary, wasteful and undesirable.
>
> Every letter of inquiry should indicate in some definite and conspicuous manner the object and scope of the inquiry.
>
> The recipient of a credit inquiry who urges his correspondents to make plain the object and scope of their investigations, fails in his duty if he neglects to read carefully each special letter of inquiry and to answer frankly specific questions therein.
>
> In answering inquiries, it is advisable to disclose all material facts bearing on the credit of the subject, because full understanding is always necessary and because all paper offered should be of the same description as that held by the borrower's own bank.
>
> It is not permissible nor the part of good faith, in soliciting accounts from a competitor, to seek information from the competitor without frankly stating the object of the inquiry."

In the hope and belief that these highly principled precepts are being followed by each one of us, nothing more is to be said in this respect.

There are various reasons why banks seek information. Let us consider these in order.

(a) In behalf of the bank's customers: checking made of either trade or outside banks. This is a service which is becoming increasingly important in the bank's activities. In fact, many of the larger banks feature this in their advertisements as one of the services by which they hope to attract new business. The scope of the investigation to be made for customers can be largely measured by the reasons of inquiry and the amounts involved, as can also the answers thereto. Here, too, the letters sent out should definitely state the object and scope of the inquiry, as an indication of the type of answer desired.

(b) New Business Inquiries: This has been well covered in the Code above quoted. Experience will soon tell the completeness with which to answer such inquiries based on the confidence in which the inquiring bank is held, measured by the fairness with which it plays the game. Some startling examples of malpractices in this might be given—likewise some notable in their fairness—but these are known to all of us and we know how to treat each in his own kind.

(c) Inquiries on Commercial Paper names: The amount of paper under consideration should be named by the inquirer and full information as to line granted, maximum and minimum use made thereof, balance record, opinion of management, etc., should be given in answer to such inquiries.

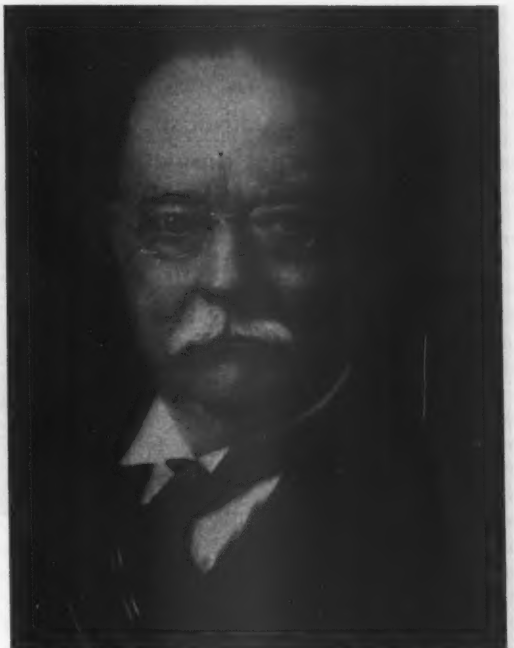
(d) Mutual accounts: Here we have the apex of the value of the inter-

(*Continued on page* 41)

ARBITRATION versus LITIGATION in Credit Administration

BY HON. WILLIAM C. REDFIELD

President, Brooklyn National Bank



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BUSINESS men, in ever-increasing numbers, are apparently reaching the conclusion that "next to war, the greatest source of economic waste in American business life is needless litigation," a statement contained in a publication of the Department of Commerce. In no other way is it possible to account for the strengthening public sentiment which is being translated into the enactment of comprehensive arbitration laws and the increased use of arbitration clauses in purchase and sales orders. Business controversies, as a rule, involve only questions of fact, and yet, by their volume, congest the Court calendars and retard the administration of justice, pile up the costs of litigation, tie up large sums of money, impair credits, destroy friendly trade relationships and spread discord throughout industry.

Credit men should welcome this method of settling business disputes. A case recently settled by arbitration illustrates the advantages of this method of disposing of commercial disputes, from the credit man's viewpoint.

A large and important foundry in one of the eastern states had at the head of one of its plants a man whose invention for the manufacture of a certain type of pipe they were using. As this invention was about to expire, the inventor was asked to make certain modifications in the process of manufacture so that a renewal of the patents could be obtained. This was done and a plan was worked out whereby he was to be paid a certain royalty and a percentage of the savings in the cost of production resulting from his process, payable in instalments throughout the year. A considerable sum of money was spent in making changes in the plant and production was then started under the new method.

Complaints from various parts of the country were soon received that the piping was unsatisfactory in that the guaranteed pressure caused the pipe to spread. An investigation revealed the fact that, in an effort to cut down the costs of production, the head of the plant, who had been given *carte blanche* in production, had eliminated a number of safeguards used in manufacturing the product.

The executive was discharged and prepared to sue the company but an arbitration was finally arranged under the Rules of the American Arbitration Association. The arbitrators selected were three well-known New York business men and a hearing was held. The arbitrators decided that certain sums paid by the company to the discharged executive should be returned and disallowed the latter's claim to further sums under the agreement.

Avoids Damaging Publicity

The case, involving several hundred thousand dollars, was settled without publicity, which would have caused great damage to the reputation of the company if the fact had become known that for a brief period of time it had been manufacturing a defective product, even though the defect had been corrected. There was no impairment of the company's credit through the tying up of assets or a decrease in the value of its stock, which would inevitably have followed if the facts had become known. There was no long delay due to crowded court calendars and none of the costs of involved litigation.

This is the second article on arbitration published by CREDIT MONTHLY. The first article by Felix M. Warburg appeared in February. Mr. Redfield, the author of this article, was Secretary of Commerce in the cabinet of President Wilson, and is one of the best fitted men in the country to write on this important subject.

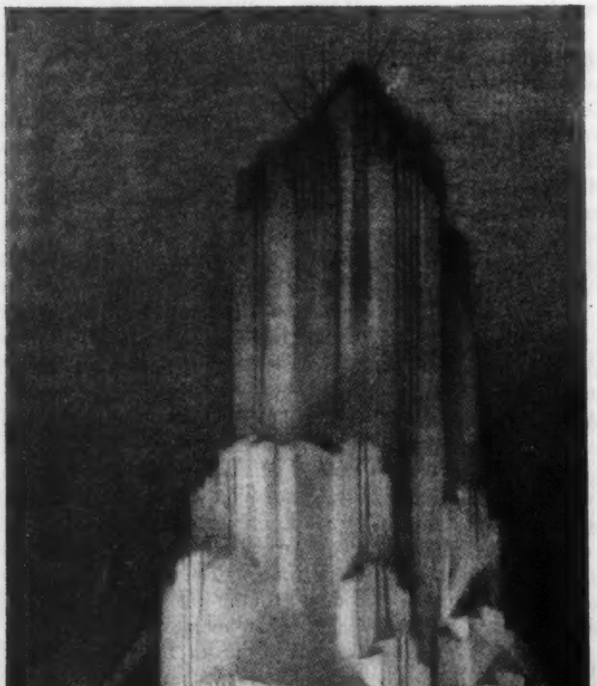
In another case arbitrated recently, the two partners in a real estate holding corporation were liquidating the business and could not agree upon the division of its assets nor an accounting of rents, disbursements and fees from two apartment houses owned by the corporation. The case was further complicated by the fact that a bank which held a mortgage on the properties was about to foreclose its mortgage. The parties realized that lengthy and costly litigation would result in a loss to both of them, and decided to arbitrate their dispute. The bank was approached, and upon being assured that the controversy would be submitted to arbitration, agreed to grant an extension of thirty days, thus allowing ample time for a decision to be reached. It required less than that time for the arbitrators to render an

(*Continued on page* 47)

■ **Forecasting, statistical analysis, industrial progress and depression are interpreted in a new way for credit executives in this article by Charles N. Fitts, President of American Institute of Steel Construction, Inc. Mr. Fitts also analyzes and discusses**

The illustrations on this and the next page were drawn by Hugh Ferris for the American Institute of Steel Construction, Inc.

Prospects for Steel Construction



STATISTICAL analyses are not infrequntly misleading because of the ignorance with which they are interpreted. Were it not for this the reports of the Bureau of the Census would be quite adequate as a guide to all persons engaged in supplying a market. No better example of this can be found than the reports on steel construction since the fall of 1929. Business generally showed a considerable decline during the last quarter of 1929 and the first quarter of 1930. But just while the lowest production and the lowest sales records were being achieved by business generally, the new orders and the shipments by the steel constructors of the United States showed new records and remarkable gains.

It is quite obvious to us who are engaged in this industry that steel construction does not always follow the normal trend of business. There is usually a lag of several months, because this is a contract business which does not immediately respond to panics and fears, nor immediately to booms and emotions. The bridge builder or the fabricator as he was once called (the proper term is steel constructor) is engaged in engineering and contracting. His shop does not produce en masse, it is impossible to apply the continuous factory principle to the business, because each job is distinctive and unique. He sells his product before he makes it. Consequently the steel constructor does not manufacture for stock and his supplies do not have the habit of accumulating during periods of depression.

The steel constructor purchases supplies of structural steel from the mills only against orders he actually has in hand for the framing of buildings and bridges. His sales to owners are based upon the current price of the raw material—structural steel—and the cost of fabricating it for the particular job. All the sales are against specification and on con-

tract. For that reason the reported volume of business done by this industry will not immediately reflect the condition of business generally.

While it might seem, therefore, that the structural steel industry is peculiarly free of the normal gluts and famines of business, that is true only in theory. The shops of the steel constructors are usually designed to care for a certain amount of business monthly. Machinery and staff are capable of handling a designated tonnage. In some instances this means that the shop is prepared to bid only on the smaller construction jobs because they involve the smaller tonnage and the small shop affords a flexible organization just suited to that purpose. On the other hand another shop is equipped with machinery and men capable of handling a much larger tonnage monthly. Such a shop under ordinary circumstances would bid only on the heavy or the large construction jobs requiring a large organization to carry out the contract in good time.

When business becomes slack, it might be expected that these shops—varying in size as they do—would go out and bid for business of any size. In some instances they actually do, and frequently to their sorrow. For if a big shop gets glutted with a tonnage of small jobs and a big contract comes into the market, it is precluded from bidding thereon. It is therefore to the advantage of the big shop to keep its shop free of small jobs so as not to interfere with the handling of the big contracts when they arise. The small shop is precluded by its very size from even bidding on that business.

When business becomes extremely bad and there is no recovery in sight, these normal safeguards are thrown to the winds. Then competition between the shops of differing sizes becomes actual and a chaotic condition results. In order to safeguard the industry it is always wise to do everything possible to prevent any such thing happening. Today we are rapidly becoming removed from such an eventuality. In 1921 a total of 1,188,600 tons of steel construction was sold in the United States. During 1929 the business amounted to 3,842,300 tons. This great increase represents a constant and gradual growth. It was brought about by no usual method, but is the result of a jointed and co-operative effort of the industry as a whole.

Full credit must be given in this connection to the American Institute of Steel Construction which was created by the steel constructors back in 1921 as an agency for standardizing structural shapes and for defining standards of steel construction. Once that objective was achieved it was determined that the Institute should bend its efforts toward developing the market for steel construction in bridges and building. It has done much more than that, it has developed new markets for the material and the services of the industry. Steel frame houses, traffic viaducts, hydraulic and irrigation dams, hangars, piling, steel floors and other new developments came in for promotion and each has contributed additional tonnage and additional work to the steel constructor.

Growth in Steel Construction

In all of these developments economic conditions have peculiarly favored this industry. Of course it has been possible to realize the benefits more rapidly by virtue of the fact that the industry organized and thereby created a means of taking advantage of these economies earlier than would otherwise have been the case. Steel is the strongest and the most economical building material known to man. When propertly designed no other material can produce a comparable structure for the price. This, of course, was not always known to architects and engineers and even today not all architects and engineers have been persuaded that it is true. Little by little, step by step, the truth of the matter is being established, and it is being done more rapidly through organized propaganda.

The figures on costs are compiled in indices by the Department of Commerce and by other competent agencies. Any reasonable study of those will prove that steel frame construction has not advanced in cost as rapidly as competitive methods of building. Furthermore it is proven that steel framing is the only building material that can be used in extremely large projects. When the spans of bridges become very long or a building very high, it must go up in steel for that is the only method of construction the designer is sure of.

The rapid growth in the use of automobiles and the rapid strides in motor transportation, coincident with the increase in population of the country, has brought with it a new demand for highways, and those highways demand new bridges. Heavy traffic demands larger bridges, wider bridges. A steel bridge can be easily increased in size, reinforced if the traffic become heavier than the originally designed load, or can be removed and reerected at another location. That is not true of bridges built of other materials.

And with the speeding up of the normal family life, the demand for homes has undergone a great change. Apartments are today far more attractive than private houses. An apartment can offer more for the money than can a house, consequently the tendency has been away from residences to apartments, away from the small building to the skyscraper office building. In this transition steel plays a predominant part. Without steel construction this trend would have been impossible.

We figure therefore that the growth

(*Continued on page* 49)

A Conception of the great city of the future

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In this article on Demolition Insurance and Increased Cost of Construction Policies, Clarence T. Hubbard, Author of "Where Insurance Leaves Off" shows how insurance helps in

Rebuilding After the Fire

IT is one thing to insure a building and collect in the event of loss for the fire damage. It is another to have to rebuild the undamaged portion of the property at a higher cost and not collect for this added expense. For this purpose demolition insurance was invented. As a contribution to the protection of credit it is vital, and yet rarely is it ever demanded by credit managers or bankers. While thousands of demolition and "Increased Cost of Construction" endorsements appear on fire and allied fire insurance policies, especially in cities where the custom is more or less established, the approving of such risks by fire insurance underwriters is carried on most selectively. The rules applying to the writing of such risks vary considerably by states owing to the different laws or ordinances controlling the reconstruction of buildings.

Demolition and Increased Cost of Construction are not written in a separate policy but rather in the form of endorsements attached to the ordinary fire insurance policy. Demolition insurance protects a property owner against loss or damage occasioned by the enforcement of any state or city ordinance which demands that the property owner rebuild his building in keeping with the demand of city building codes—the purpose being to protect the owner against the additional financial loss resulting after a fire when the building has to be reconstructed in keeping with adopted building codes.

There are two distinct coverages: (1) demolition, (2) increased cost of construction. Under a demolition endorsement, the recovery is limited to the actual cash value of the *undestroyed* sections which are caused to be reconstructed. The demolition endorsement does not pay for the *added* cost of construction in keeping with the later building code requirements. In other words a frame building, half destroyed by fire, and required to be reconstructed with brick would represent a claim under the demolition clause for the cash value of the frame portion, undamaged. The damaged portion would be a claim under the direct damage feature of the fire insurance policy.

But the "increased cost of construction" of the *damaged* portion of the building, due to the enforcement of building ordinances can sometimes be insured as well as the reconstruction cost of the undamaged section which must also be rebuilt. This is known as "increased cost of construction" or "contingent liability." It is necessary, however, to consult a local fire insurance agent to ascertain if such protection is available in a particular locality. An additional premium is charged, which of course is less for fire resistive buildings than for other classes of construction.

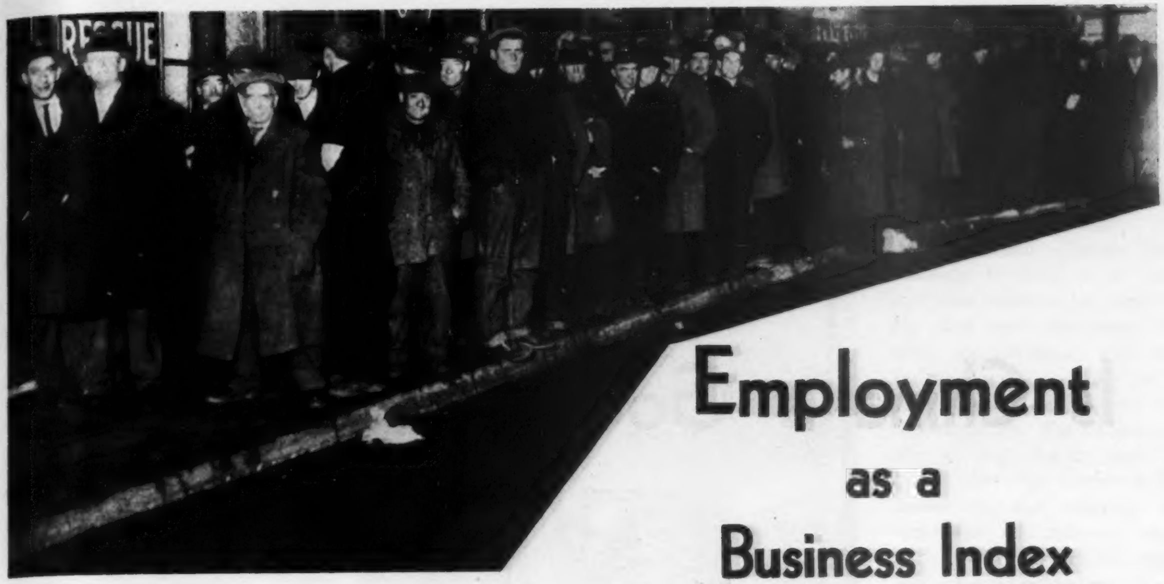
While the wording of the form of insurance varies somewhat by territories, it is generally along the following lines and is subject, of course, to the coinsurance and other provisions of the standard fire insurance policy to which it is attached:

> "In consideration of $———— additional premium, this company under this policy, shall, in case of fire, be liable also for the loss or damage occasioned by the enforcement of any state law or city ordinance which necessitates, in rebuilding, the demolition of any portion of the insured building not damaged by fire, but not beyond the actual value, prior to the fire, of the property subject to such demolition, and not for any expense of greater cost of reconstruction; provided, that in no event shall this company be liable under this policy beyond the sum for which it is issued, and provided, further, that this company shall be liable only for such proportion of the loss or damage as the amount hereby insured bears to the whole amount insured thereon, whether such other insurance contains a similar clause or not."

When the "increased cost of construction" of the damaged portion is assumed the endorsement includes wording to this effect: "and this company shall also be liable for the additional cost of repair or reconstruction, due to the enforcement of such law or ordinance, or portions of the insured premises which have suffered damage."

Demolition insurance is sometimes called "contingent liability from operation of building laws." In some parts of the country the fire insurance companies will refuse flatly to write demolition insurance on any type of building. Companies which accept risks base their decisions on the construction of the building, its location, its age, its tenantability, ownership and maintenance. The age of the building, the stringency of the municipal building code and the general trend of ownership (whether it is property held for speculation or otherwise) are the decisive underwriting factors in demolition insurance.

In many ways this form of insurance is one of the most important to credit protection even though it is hard to secure. Naturally it is more difficult to procure on old frame buildings than on semi-modern buildings. The question often arises: why can't a man buy "demolition" and "increased cost of construction insurance" for an amount sufficient to pay him for the cost of erecting a new modern building in place of his old edifice and then burn it up and let the insurance companies build his new building? The answer is important to credit men—the fire insurance companies will only write "demolition" and "increased cost of construction insurance" (if at all) in amounts *not exceeding* the straight fire insurance on the building. If a building is worth $100,000—not more than $100,000 demolition can be procured.



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Employment as a Business Index

By DR. STEPHEN I. MILLER

THERE was a time when labor was discussed as a commodity, bought and sold quite as other commodities. For years the human aspect of labor was given scant consideration. Today the wage earner is recognized as the one great social and economic factor. The right to work has appealed to thousands as a sound economic principle. It is little wonder that employment has become popular as a business index. When the bread line takes the place of the pay line grave social and economic consequences are feared.

An increase in employment affects purchasing power, directly and positively. If one were to take an average wage, multiply it by a million men out of work for a period of a few weeks the figures would be appalling. There can be no prosperity in a city or country cursed by unemployment. Trade, bank deposits and collections soon reflect the economic importance of a constant wage flow.

In most parts of the world unemployment has been a serious problem for the past two years. In Great Britain, Germany, Italy, Austria, Holland, Roumania, Australia and Russia unusually large numbers are out of work. In March, 1930, Great Britain had 1,622,000 unemployed, which represented 13.4% of all her industrial workers.

In the United States the chief source of data on employment is the Bureau of Labor Statistics, to which about 12,000 manufacturing establishments report monthly on employment and payrolls. These plants at the end of 1929 employed 3,250,000 workers for a total wage of about $90,000,000 a week. These reports, give, of course, only a sample or cross-section of the whole employment situation.

As to present employment conditions, the Bureau's report for March is not favorable. Based on the monthly average of 1926 taken as 100, employment in January stood at 90.2, lower than any figure reached since the Bureau's compilations were begun in 1923. February showed a very slight increase, but March dropped back to 89.8, establishing a new low level.

In considering unemployment in the United States as a business index, the following modifications and conditions should be observed:

First: Employment statistics are frequently used for political and other propaganda results and should be carefully checked.

Second: Seasonal conditions should always be taken into consideration. Even in prosperous times there are probably about a million out of work.

Third: Leading economists believe that while from month to month, or over a limited period of a few months, the Bureau of Labor Statistics yields a satisfactory picture of changes in factory workers' employment or aggregate earnings, over an extended period of several years the Bureau's index constructed from month-to-month changes is open to serious question.

Fourth: The one cheerful note in the present situation is sounded by the head of the Federal Employment Service, who predicts early and substantial increase of employment in such industries as road construction and public works. As a large part of the public construction outlined in President Hoover's conference is just about to be begun, there will be an increase of employment in that direction.

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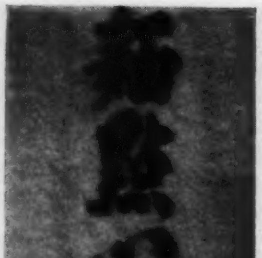
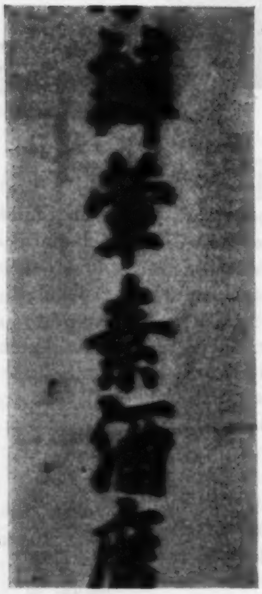


Is China a Good Credit Risk?



BY WALTER BUCHLER who contributed "Is Japan a Good Credit Risk?" to the April Credit Monthly. Mr. Buchler's experience in the Orient provides a strong background for his revealing analysis of commercial China and Chinese character.

A COUNTRY like China with her constant "wars", political intrigue, and other disturbances, which, if they were to take place here, would certainly affect trade and increase credit risks considerably, can, many will say, hardly be a good credit risk. The risks to one's person or pocket which a Chinese "war" entails are, however, negligible. In fact, they are much less serious than a drop in the exchange value of China's silver currency, such as recently took place. When faced with heavy losses, smaller Chinese merchants are sometimes apt to repudiate their contracts. This is not a result of the standard of commercial morality among the Chinese business class which is, on the whole, high not only in China itself, but also wherever there are Chinese. Few Chinese ever go out of their way deliberately to defraud another, whether one of their own countrymen or a foreigner. The business risk in dealing with the Chinese is not so much a question of honesty as of the rapid fluctuation of the market in all merchandise (due to a silver currency) and the gambling spirit of the Chinese.

When doing business with the Chinese it is, therefore, of first importance to make sure that one's customer is buying no more than he can conveniently carry. If, moreover, one has the feeling that he is taking too great chances, no credit should be given, even if this means restriction of business. Generally, the serious Chinese merchant is one of the keenest buyers in the world; he makes doubly sure what and from whom he is buying and to whom he sells, and the more he haggles over the price, the sounder is his standing and the less the credit risk.

During recent years there has been and still continues to be, a greater tendency for Chinese to deal direct with exporters and manufacturers in this country. The matter of credit risk, accordingly, deserves serious consideration. And while there is no reason why such direct trading should not be encouraged, it is inadvisable, at least to begin with, to tempt the Chinese to buy excessively or unwisely, by granting easy terms. For the merchant in China, whether small or large, who wishes to do business direct with a foreign country can and is prepared to conform with the usual terms of payment customary in the export trade. He knows what a letter of credit is, and, if his credit is good, he has banking facilities in all the large cities of China such as Shanghai, Tientsin, Canton, Dairen, Harbin, as well as in Hongkong. A merchant's credit standing is not difficult to ascertain, for in China it is not the individual that counts but the family. Every Chinese is jealous of the family's honor; should a member of his family not pay his debts, abscond, or act dishonestly in any way, the head of the family will, in all probability himself pay the debt in order to uphold the family's good name. In fact, it used to be the usual thing, and still takes place in some parts of China, that should a Chinese default and not be found, his nearest relative would be summoned before the Magistrate, and be ordered by him to make amends. If he refused, he would be bastinadoed or put in prison (or both) till the money was forthcoming.

The "Compradore" system, which is still used by the majority of foreign firms trading in China, also helps to diminish the credit risk when dealing with the Chinese. Many of the rich Chinese act as Compradores to foreign firms and also finance purely Chinese undertakings. Some are employed for import business, and others for export purchases. The principal duty of the Compradore is to obtain orders and to

guarantee the payment of accounts. He is, in other words, the intermediary between the foreign merchant in China and the Chinese dealer. The Compradore attending to imported merchandise engages his own Chinese staff. Sometimes, he arranges for a substitute to manage the office in his absence and divides his attention betwen several undertakings. The "shroffs" are the most important members of the Compradore's staff. Their task is to obtain orders and collect accounts, and it is they who keep in constant contact with buyers and the market generally, and are, therefore, best able to judge the credit risk involved in dealing with each individual buyer or prospective customer.

With the increasing direct trade and the anxiety of the Chinese to buy at the very lowest price and eliminate all intermediaries, the likelihood is for the Compradore's services gradually to be dispensed with and more credit to be given. At present, the Compradore generally guarantees 25 per cent. of the value of accounts—the amount depending on the commission it is mutually agreed upon that he shall receive on all transactions in return for his services.

To eliminate the maximum amount of credit risk, it is good policy not to confine onself to one or two firms in China, but to entrust one line of merchandise to one firm best able to handle it and another to some other house specializing in that class of goods. Under no circumstances should one appoint or limit oneself to one company, no matter how strong financially or how large its organization, to cover the whole territory in China. The market is much too large and the credit risk thus involved would outweigh any convenience that dealing with one firm provides. There are now quite a number of both Chinese and foreign firms in all the larger cities and ports in China, with whom direct business may safetly be done.

Periodical vists to connections out in the Far-East are also useful not only in promoting business and making further connections among Chinese merchants, but also in judging the credit standing of present and prospective customers.

The credit standing of a Chinese merchant can usually be ascertained from his premises, the staff he employs, and his general appearance and conversation. The straightforward Chinese hides nothing; he likes to be frank and likes others to be frank too. He does not exaggerate, and when in difficulties will come and tell one so, asking for accommodation to tide him over his difficulties. For a Chinese to act in this manner does not imply that his credit is impaired; on the contrary, any assistance he receives carries with it—at least in his eyes—still greater obligation to pay and pay as promptly as he can, and he feels himself still more indebted to the party helping him over his temporary difficulty.

Thus, when a payment due from a Chinese is not made, one should not threaten him by word of mouth or by letter, but try to reason the matter with him, ascertain the cause of his default, and, if possible, affect a compromise. Chinese seldom go to court with one another, nor is it considered etiquette among them to do so, for it does more harm to business than good to the parties at suit. Any difficulty, be it a matter of credit or an adjustment in price, can be adjusted in China by compromise to the satisfaction of both parties.

Contrasting the old type of Chinese and the modern, it is quite obvious that the former provides the better credit risk. The latter is more acquainted

(*Continued on page* 49)

Looking down on the Bund, the water-front street and main artery of trade of Canton, China

© Ewing Galloway

A water-buffalo turns a primitive irrigation paddle pump in a rice field on the Grand Canal, while smoke rises from the stacks of a modern factory in the distance

© Ewing Galloway

If the wholesaler gets his money, he must help the retailer get his, and at the same time co-operate with the retailer and help him choose his credit customers wisely.

How to Get the Money

By BEN GOODMAN
Asst. Secretary and Treasurer
The Lewis Bear Co., Pensacola, Florida

THERE is an inscription on the pen with which the Kellogg Peace Pact was signed, that changes the well known Latin proverb "Si vis pacem, para bellum," so that it reads, "If you wish for peace, prepare for peace."

The only way to have perfect peace in the credit department, is to have the accounts paid up so that the amount outstanding is at a minimum. This would be the credit man's Utopia, and incidentally, it would mean that the sales were maximum, for there is nothing that tends to increase sales as much as paid up accounts.

We can therefore, make a change in another well-known sentence, so that it will read: "Now is the time for all good credit men to come to the aid of their customers." If we credit men actually do this, it will help materially to turn the wheels of business progressively and profitably.

In my article "Put Teeth in Chain Competition" (published in the March issue of CREDIT MONTHLY) I stated that a number of merchants have actually thanked us for tightening up on their credit, because it made them carefully scrutinize the credit they they were extending to their customers.

These words of thanks along with the fight that is being waged against the Chains, brought the idea of the immediate necessity of an organization among the retail grocers, an organization that would aid the wholesale grocer to collect his accounts, and at the same time aid the retail merchant to not only collect from his customers, but to choose his credit customers wisely and to be in a better position to combat the competing Chains.

To give credit where credit is due, it was a representative of Mr. W. K. Henderson's organization who aided in getting the idea to rolling in this city, when he came to solicit memberships in the M. M. M. (Merchants Minute Men), now so well known over the country. The idea got under way, and like a rolling snowball gathers snow, the idea gathered enthusiasm and momentum as it went from one man to another. The spark was fanned by the credit men of the various wholesale houses and the spark burst into flame at a mass meeting of all independent grocery merchants, called for the purpose of discussing the formation of an organization to safeguard their interests, and incidentally, the interests of the wholesale grocers, who, as a matter of fact in almost every locality, really own through their book accounts, the vast majority of independent retail grocery stores.

Like all organizations in their early stages, a temporary chairman was elected at the first meeting and the proposition as outlined by him was enthusiastically received. The chairman not only told them they were organizing to combat the Chains by urging the members to adopt the more efficient merchandising ideas brought into existence by the chain stores, but that they were organizing to systematically control the extension of credit to the consumer. The idea, he explained, was not new by any means, but it was new to the average retail grocer. Not that he had never been invited to become a member of a retail credit organization—but *he had never before deemed such a thing necessary for a grocer*. The chairman, under the guidance of a credit man from one of the wholesale grocery houses, went on to explain that there was at present the greatest need for such an organization among the retail grocers, because there were any number of consumers who were being credited by the grocer, who could not go to a department store, milliner's, dress shop or a toggery shop and secure one penny of credit unless they left the article purchased in the store until it was paid for.

After the first meeting there were still some grocers who were skeptical about the organization. This was where the credit man did some real work. By virtue of his knowledge of business conditions in general, the credit man convinced the skeptics in a heart-to-heart talk. The credit man asked the skeptical grocer how much he had lost in bad accounts the previous year. The answer was generally more than the credit man expected to hear. It was easy to make the grocer visualize the amount in ten-dollar bills and then realize how much merchandise he had to sell to make, in profit, the amount he had lost. The credit men proved to the skeptics that prompt collections from worthy credit customers, would put them in a position to pay their bills promptly and secure the discounts to which they were entitled, or at least,

(*Continued on page 50*)

■ ■ ■ ■

Now is the time for all good credit men to come to the aid of their customers.

Sales quotas and high pressure selling bring more problems to the credit executive than any other single factor. In the article below, one of America's most accomplished salesmen gives his views on this subject.

Sales Quotas and High Pressure Selling

BY R. H. GRANT

Vice-President, General Motors Corporation

MUCH has appeared in print recently regarding the evils of the Sales Quota. Much of what has been said is unfortunately true. The evil, however, is not in the sales quota principle, but in the erroneous application of the principle.

The term Sales Quota means (or at least should mean) *that portion of the business in a given territory which the individual manufacturer may reasonably expect to get.*

Under the terms of this definition we must consider the economic characteristics of the territory, the past performance of the automobile business in the territory, the ability of our dealer in relation to competitive dealers and the status of his financial operating position.

The aggressive marketing practices of the industry have frequently led to the forcing of cars beyond the bounds of sound economics and it seems obvious that this is against the best interest of the manufacturer as well as the dealer, for while the dealer may be penalized more acutely and more quickly, the manufacturer is inviting bankruptcy in that territory and the expense of reorganizing and living down the stigma associated with the local failure, far outweighs the fallacious advantage of temporarily overselling the market.

And yet sales aggressiveness is essential under the modern competitive conditions. If the automobile industry had followed a passive course it could never have played so important a role in contributing to American industrial prosperity.

The phrase "consumer demand" has little more than an academic meaning except as applied to such fundamental physiological necessities as food, shelter and clothing in their most simple and elementary forms. When we get beyond that, we must inevitably recognize the necessity for sales pressure of varying degrees. In fact, to assume any different stand is to attack the entire scheme of modern industry and our existing ideas of progress, cultural advancement, higher standards of living, and civilization itself. To be sure, many retail merchants in various lines have suffered heavy financial losses as a result of having had merchandise forced upon them, and the automobile business is no exception.

Of course, it may be argued on the other side of the question that many dealers operating big and profitable business would have never gotten beyond the shoestring stage had it not been for the manufacturers' insistence on an aggressive and intensive sales policy. But the time has come when the far-sighted manufacturer can ill afford to find consolation in the more favorable aspects of the case.

Any dealership which does not make money is a danger point threatening the future security of the manufacturer whose line the dealer represents.

But the remedy is not to be found in the abandonment of the sales quota nor in the adoption of a less aggressive sales policy. The difficulty lies, not in the principle, but in a misapplication of the principle, due to a lack of facts or a lack of far-sightedness or both.

The automobile industry is thirty years old, but from a standpoint of merchant-management, it is still in its swaddling clothes and incidentally the same can be said of many far older industries.

Knowing as I do the things that are going on in the minds of our big-

(*Cont. on page* 51)

Richard H. Grant was recently promoted from head salesman of Chevrolet to head salesman of all General Motors products. His first sales experience was with the National Cash Register Company under John H. Patterson. From selling Delco-Light farm installations, Frigidaires and Chevrolets, he has advanced to the executive leadership of General Motors sales, service and advertising. There is no sales executive in the country better qualified to discuss sales quotas and high pressure selling for the executive readers of Credit Monthly.

Nation-Wide Collection and Sales Conditions

WHAT THEY ARE AT PRESENT
THE OUTLOOK FOR THE NEAR FUTURE

CREDIT MONTHLY offers its second monthly survey of Collections and Sales Conditions. This survey is based upon reports from cities throughout the country that are trade centers for their surrounding areas. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?", are perhaps the most direct and immediate reflection of daily business conditions in the country.

■ This is the second monthly report of Collection Conditions and Sales Conditions to be assembled and published by Credit Monthly.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each State. You may also see at a glance what cities report a condition of "Good, Fair and Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT MONTHLY. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

		COLLECTIONS			SALES		
State	**City**	**Good**	**Fair**	**Slow**	**Good**	**Fair**	**Slow**
Arkansas	Little Rock		Fair			Fair	
California	Los Angeles	Good				Fair	
	Oakland		Fair			Fair	
Colorado	Denver		Fair			Fair	
	Pueblo		Fair			Fair	
Connecticut	Waterbury		Fair				Slow
Florida	Jacksonville			Slow		Fair	
	Tampa		Fair			Fair	
Georgia	Macon		Fair			Fair	
Idaho	Boise			Slow		Fair	
Illinois	Decatur			Slow		Fair	
	Peoria			Slow			Slow
	Quincy			Slow			Slow
	Rockford		Fair			Fair	
	Springfield			Slow		Fair	
Indiana	Evansville			Slow			Slow
	Fort Wayne			Slow		Fair	
	Indianapolis			Slow		Fair	
Iowa	Burlington			Slow		Fair	
	Davenport	Good				Fair	
	Des Moines			Slow			Slow
	Ottumwa	Good			Good		
	Sioux City	Good					Slow
	Waterloo		Fair		Good		
Kentucky	Louisville		Fair			Fair	
Louisiana	New Orleans			Slow		Fair	
Maryland	Baltimore		Fair			Fair	
Massachusetts	Boston			Slow		Fair	
	Springfield		Fair				Slow
	Worcester			Slow			Slow

State	City	COLLECTIONS Good	COLLECTIONS Fair	COLLECTIONS Slow	SALES Good	SALES Fair	SALES Slow
Michigan	Detroit		Fair				Slow
	Flint			Slow			Slow
	Jackson			Slow			Slow
	Lansing	Good			Good		
	Saginaw		Fair				Slow
Minnesota	Duluth			Slow			Slow
	Minneapolis		Fair			Fair	
	St. Paul		Fair			Fair	
Missouri	Kansas City			Slow		Fair	
Nebraska	Lincoln		Fair			Fair	
	Omaha		Fair			Fair	
New York	Albany		Fair		Good		
	Binghamton		Fair			Fair	
	Buffalo			Slow		Fair	
	Rochester		Fair			Fair	
North Carolina	Greensboro		Fair			Fair	
Ohio	Cleveland		Fair			Fair	
	Columbus		Fair				Slow
	Dayton		Fair				Slow
	Toledo		Fair				Slow
	Youngstown		Fair			Fair	
Oklahoma	Oklahoma City			Slow			Slow
Oregon	Portland		Fair			Fair	
Pennsylvania	Allentown			Slow			Slow
	Altoona			Slow			Slow
	Johnstown			Slow			Slow
	New Castle			Slow			Slow
	Reading		Fair		Good		
	Scranton			Slow			Slow
	Wilkes-Barre			Slow		Fair	
Rhode Island	Providence			Slow		Fair	
Tennessee	Chattanooga			Slow			Slow
	Knoxville		Fair			Fair	
	Memphis			Slow			Slow
Texas	Austin			Slow			Slow
	Dallas		Fair			Fair	
	El Paso		Fair				Slow
	Fort Worth			Slow			Slow
	Houston			Slow		Fair	
	Wichita Falls			Slow		Fair	
Utah	Salt Lake City			Slow		Fair	
Virginia	Lynchburg		Fair				Slow
	Norfolk		Fair			Fair	
	Richmond		Fair			Fair	
	Roanoke		Fair			Fair	
Washington	Bellingham		Fair			Fair	
	Tacoma		Fair			Fair	
West Virginia	Bluefield		Fair			Fair	
	Charleston		Fair			Fair	
	Clarksburg			Slow		Fair	
	Wheeling		Fair			Fair	
	Williamson			Slow		Fair	
Wisconsin	Fond du Lac		Fair			Fair	
	Green Bay		Fair			Fair	
	Milwaukee	Good				Fair	

COMMENTS ON COLLECTIONS AND SALES CONDITIONS

The May Credit Monthly survey of Collections and Sales covers eighty-five trading centers and shows several changes since the April survey. Los Angeles, which reported "Fair" for Collections in March, reports "Good" for April, and their Sales have increased from "Slow" to "Fair.". Collections in Oakland, California, were "Slow" for March, but are "Fair" for April; reports from Denver show an increase in Sales, from "Fair" to "Good." Business there has been slow, but is looking much better. Waterbury, Connecticut, reports an improvement in collections over March but more because of seasonal reasons than because of wage conditions. Sales are very slow, largely due to the wage conditions in the Waterbury manufactories. Macon, Georgia, shows an improvement over last month's report, from "Slow" to "Fair", both in collections and sales. Collections in Rockford, Illinois, show considerable improvement over last month's report going from "Slow" to "Fair".

In Indianapolis, sales have improved from "Slow" to "Fair". Des Moines, Iowa, shows a decrease in sales, the report going from "Fair" to "Slow". Waterloo, Iowa, reports that sales are good, thus improving last month's report of "Fair". New Orleans, Louisiana, which last month reported "Fair" for collections, this month reports collections as "Slow". In Springfield, Massachusetts, collections have fallen off and the report this month is "Fair", whereas the report for April was "Good". Sales in Jacksonville, Michigan, are reported as "Slow" which is a falling off from the sales of last month, which were reported as "Fair".

In Duluth, both collections and sales have fallen off from "Fair" to "Slow". The Secretary of the local Association says that both sales and collections are below the levels of last year. He gives as reason for the depression that last fall the farmers expected monetary relief and spent all they had although the relief did not come through. The Farm Board has been in and out of the market twice, creating an uncertain situation, and the farmers do not know whether to put in crops or not. Dairy products have fallen off in price and business is generally at a standstill.

Albany's sales have climbed from "Fair" to "Good". Price prospects are "Fair" and volume prospects "Good". Cleveland and Columbus, Ohio, report an improvement in collections from "Slow" to "Fair". In Allentown, Pennsylvania, collections have gone from "Fair" to "Slow" and the reason given is that manufacturing, quarrying, and mining are far below normal in production with a consequent reaction on the retailer. In Reading, Pennsylvania, sales show an improvement over last month, the report for April being "Good". Providence's collections have decreased from "Fair" to "Slow", but builders, hardware merchants and groceries report that collections are "Fair".

In Memphis, Tennessee, collections have gone from "Fair" to very "Slow". In Dallas, collections and sales are reported as "Fair", making an improvement over the report of last month. The local secretary believes that reports on collections depend on the line handled and individual collection ability. Lynchburg, Virginia, collections have improved from "Slow" to "Fair" and collections for April, 1930, are about as they were for the same month last year. Sales are reported as "not so good" as at the same time last year, but showing some slight improvement over last month.

In Norfolk, both collections and sales show an improvement over last month, both being reported as "Fair". The moderate improvement for April is a result of spring planting and the release of some farm loans. Roanoke reports "Fair" for sales which is an improvement over last month.

The Bellingham, Washington, Association reports an improvement in collections and sales characterizing them as "Fair". There has been a noticeable improvement in both during the past month. The report of "Fair" for conditions of sales in Fond du Lac, Wisconsin, is an improvement over last month's report. The Easter trade was good and conditions for the future are optimistic. Collections in Milwaukee made a change for the better and are reported as "Good". Business conditions are improving greatly.

Summaries by States

ARKANSAS: Little Rock reports that collections for the past two weeks, especially in the automobile lines, have been very "Slow". Credit extension is being limited and credit is tightening up all along the line.

COLORADO: The tone in collections is reported stronger and sales are gradually improving.

INDIANAPOLIS: Southern Indianapolis reports a slight improvement in collections and sales during the last 30 days. Fort Wayne reports that an improvement in sales would be noticed if wholesalers and manufacturers would extend longer term credits.

IOWA: Collections are better than for the preceding six months. The volume of collections may be smaller than that of the same period last year but the ratio of collections to sales is greater. All lines of jobbing report a falling-off in sales for the first quarter of the year, due to general business conditions. Local weather and crop conditions are excellent. Rainfall has been abundant and beneficial to all small grain crops.

KENTUCKY: Some slight improvement has been noted in the last two weeks in collections and sales.

MASSACHUSETTS: Sales are generally reported as "Slow", especially in the textile, shoe, fire-arm, radio and automobile lines. Retail distribution is fair.

MICHIGAN: Sales all over Michigan are reported as under normal. Unemployment is quite general, since the automotive industry is somewhat inactive. Inventories are low and small quantity buying is the order of the day.

MINNEAPOLIS: The unsettled condition in agriculture is reflected in commercial collections and sales. There has been an improvement in sales in some lines due to seasonal demands. Sales in electrical goods continue to be good and hardware sales are improving.

MISSOURI: Failures have been heavy but the outlook for the next two months is bright. There has been an improvement in sales during the last month.

NEBRASKA: Collections are inclined to be spotty but the general level is "Fair". As regards sales, some lines report improvement, others are holding their own. There has been a slight falling off in the building industry.

NEW YORK: Collections and sales are generally reported as "Fair". The general opinion is that credit and collection conditions will have to be watched more closely than usual.

OHIO: Sales and collections range from "Slow" to "Fair". There has been an improvement in sales in the automotive and steel lines.

PENNSYLVANIA: The general average of collections and sales is 'Slow", Johnstown reports an increase in bankruptcies during March and April in Cambria County. The large industries are far below normal in production and

(*Continued on page 52*)

Financing an Emperor

The Fugger banking firm, one of the money powers of the Sixteenth Century helped Emperor Maximilien make history.

BY FRANCES MICHAELSON

Frontispiece of the "Fugger News-Letters" edited by Victor von Klarwill, used by permission of publishers, G. P. Putnam's Sons.

Count Philip Edward Fugger, one of a long line of famous bankers

THE Renaissance, or re-birth, is the name that historians have given the fourteenth, fifteenth and sixteenth centuries in Europe, for this period witnessed a rebirth of culture and art which had been dormant in the Middle Ages. This quickening of learning and the arts produced masterpieces of painting, architecture and literature, which are still the glory of Europe.

The Renaissance meant a transition in the life of the people. In the Middle Ages, life had been simple and material wants few, due to the influence of the ascetic Church. The men of the Renaissance threw off the spiritual yoke of the Church. They paid an increasing amount of attention to physical pleasure, to luxury, to the intellectual delights of learning and the arts. The man of simple desires easily finds the means of satisfying them, and has little interest in the accumulation of money. A man whose desires are expanding, as were those of the men of the Renaissance period, finds the money question of paramount importance. Parallel with the intellectual movement developed a new appreciation of money and the business of handling money or finance.

This expansion of desires and a consequent awakened interest in money was strongest in the highest stratum of Renaissance society, the ruling or noble class. This group, which in the period preceding the Renaissance had been content to live a secluded life in their feudal castles now developed into patrons of the arts, builders of fine dwellings, mighty generals waging almost continuous warfare, with a coveted bit of land as the prize.

For all these activities, the princes needed money in large quantities. National finance with its regular revenues obtained from taxes, and its systematic budgetting of expenses was unknown at this period. Ruling powers resorted to such expedients as coining underweight money, selling crown lands or government offices to get money for their projects. When these methods failed to bring in large enough returns, they began to borrow money from individuals who had accumulated capital, giving as security mortgages on their property, their mineral lands, or their anticipated revenues from taxation. There grew up during the Renaissance a class of bankers who made a business of lending money to ruling powers. They were the money-bags of the Renaissance governments, providing the capital for wars, religious crusades, elections, etc. The nobles were very poor credit risks and their promises to pay unreliable, but the securities which fell into the hands of the lenders when their debtors failed to pay up, more than recompensed them for the risks they ran.

The most famous of these state bankers was the Fugger firm in Germany, a banking dynasty which rose from humble beginnings to a position of the highest importance. In 1367, Hans Fugger was a master weaver in Augsburg who accumulated a tidy sum of money which he passed on to his sons. By the middle of the sixteenth century, the Fugger banking firm was so important that Martin Luther, the religious reformer, singled them out for especial condemnation in a sermon against capitalists and extortioners, in which he said that it was high time "to put a bit in the mouth of the holy company of the Fuggers."

The Fuggers made the switch from trade to finance in the middle of the fifteenth century when the center of the spice trade with the East shifted from Venice to Antwerp and Lisbon. With Venice as the importing center, German merchants had been in a favored geographical position to act as distributors for Eastern products to other parts of Europe. With the shift in the trade center, they were no longer on the Great Trade Routes, and their trade in Eastern products fell off.

Jakob Fugger, grandson of the master-weaver Hans, laid the foundations of the Fugger banking house. In 1473, he made his first connection with borrowing royalty. The Austrian Emperor needed money to outfit himself and his suite for the marriage of his

son. Fugger capital provided the splendour of that marriage procession.

Jakob Fugger soon got into much bigger deals. He lent money to the Duke of Tyrol, ruler of a land rich in silver and copper, and received as security a mortgage on the Duke's mines. When the debt fell due and no payment was forthcoming, all the silver produced in the mines was paid over to the Fugger firm until the indebtedness was wiped out.

When Emperor Maximilien took over the duchy of Tyrol, in the course of one of his wars, he took over the Fuggers as state bankers. He borrowed large sums, and gave as security mortgages on crown lands, which eventually fell into the hands of the Fuggers, because the Emperor had no means of meeting his obligations.

The Fuggers were called upon to back the Emperor in many schemes, even his insane project of making himself Pope, which fell through. They helped him realize one ambition which was very dear to him: that of having his grandson Charles elected as his successor.

The office of Emperor was filled by the votes of the Electoral Princes of the German Empire of the Renaissance. In 1519, two candidates were up for election: the above-mentioned Charles and Francis, king of France.

Emperor Maximilien resorted to the political trick of buying votes. With the aid of the Fugger money, he succeeded in bribing enough of the electors to give his grandson the election. The other candidate tried the same tactics, but he did not have money enough, nor was he able to borrow any from the Fuggers, who had only enough money to satisfy one royal borrower. After Charles was elected, the Fuggers had a great deal of trouble in getting back their money, and wrote many a collection letter to the Emperor in which they reminded him in plain language to whom he owed his crown. Charles V, the new Emperor, maintained the relationship that his grandfather had established, and made frequent demands on the Fuggers for money to carry on his wars with his neighbor and, since the election, his enemy, Francis of France.

With the death of Jakob Fugger, in 1526, the most profitable period in the business of the Fugger firm came to close. From 1511 to 1527, the firm had made 927 per cent. profit, or an average of 54.5 per cent. a year.

From 1526 to 1560, the leadership of the firm was in the hands of a nephew of Jakob, Anton Fugger. He was a good business man, but the ever-increasing demands of the Emperor and his son for funds to wage war were proving too great a drain on the resources of the firm. They themselves were forced to borrow large sums to advance to their royal clients. Charles V became involved in a series of religious wars against the Protestants toward the middle of the sixteenth century which squeezed the Fuggers dry of funds. In addition, they were harassed by the leaders of the Protestant party who also demanded money. They could not support two parties at the same time, so they very diplomatically refused the Protestant League.

By 1560, they were in a precarious situation. They had many bad debts on their books, and they owed a great deal of money. Anton's heirs tried to wind up the business, but Charles prevented this, and continually made demands for more money.

The firm was further weakened by the retirement of several of the partners and the consequent withdrawal of capital. Up to 1600, the Fugger firm managed to hold its own, but they were weakened by each successive bankruptcy indulged in at frequent intervals by the Emperor, in the course of which he would repudiate a portion of his debts. By 1650, all that remained to the Fugger family was some landed property heavily mortgaged.

The Fugger firm and the group of bankers which it represented filled an important place in Renaissance government which was run on the principle that the prince is the state, and the prince's purse and the state's purse are one and the same thing. Wherever democratic government has developed, with its scientific administration of public finances, the function of the state banker has been curtailed. The Fugger firm died a natural death before changing conditions had a chance to kill it off.

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Beginning to Forget

Burroughs Electric Portable

Adding-subtracting machine illustrated, $175, delivered U. S. A.; $205 in Canada. Other electrics as low as $130; hand models as low as $80.

Burroughs now adds a complete line of electrically operated Portables to its present popular line of hand operated Portables.

An electric motor, built directly into the mechanism, provides the greater speed and ease of electrical operation without sacrificing any of the compactness that makes Burroughs Portable Machines so convenient for desk and counter use.

For a demonstration of an Electric Portable—or any other Portable—call the local Burroughs office or write to—

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When you get a Burroughs please mention Credit Monthly

INSURANCE DIGEST

As the credit executive is in closer contact with the insurance field than any other business man excepting the insurance man himself, the Insurance Digest has been inaugurated to fill the need of the credit fraternity for insurance news and information.

Sports Liability Insurance

This is a new line that may be of interest to the credit executive. The Sports Liability policy is very broad in its coverage. It is designed to protect the assured against loss from the liability imposed by law upon the assured for damages on account of bodily injuries, including death resulting therefrom, sustained by any person or persons, excepting the assured, as the result of accidents caused by the assured in playing or in practicing at any game of baseball, basketball, football, hockey, polo, tennis or any other similar athletic games or exercises indulged in by the assured for recreation or amusement. There are certain exclusions to this policy that can be readily explained by your agent or broker. The cost of a policy of this kind is very nominal. There are many cases, and most of them not unusual, where a policy of this kind is wise. With a growing trend for sports among business men you may find it advisable to familiarize yourself with this protection and its value as credit reinforcement among your debtor merchants.

Flood Insurance

Floods are looked upon as one of those haphazard phenomena that are so uncertain that they do not merit serious insurance consideration. Yet credit executives throughout the nation can attest to thousands and thousands of dollars lost each year because of floods. The Department of Commerce has pointed out the deplorable conditions existing in many sections of the country because of the lack of proper protection. Man with all of his remarkable engineering achievements can not definitely guarantee protection from the wrath of nature, but the engineer of risks, the insurance man, can provide protection in case a catastrophe descends upon a community.

Insurance companies have found it difficult to write flood insurance because property owners demand it when the danger is great but do not retain it when the apparent danger has passed. Flood insurance is necessary to the economic soundness of our country and real effort should be expended in making the public "flood-insurance minded" so that insurance companies will be able to promote this type of coverage.

Casualty Insurance Company Stock As an Investment

The April issue of CREDIT MONTHLY discussed fire insurance stocks as an investment. Credit executives who make the investments for their companies will also be interested in the investment background of casualty insurance stocks. There has been an increasing demand for casualty insurance stocks during the past few years. This can be attributed to a standardization of the investments of the casualty insurance companies and the care with which the financial force of these companies must be administered.

Casualty insurance companies are also required to file exhaustive annual statements and are closely supervised by the insurance departments of the various states in which they operate and are incorporated.

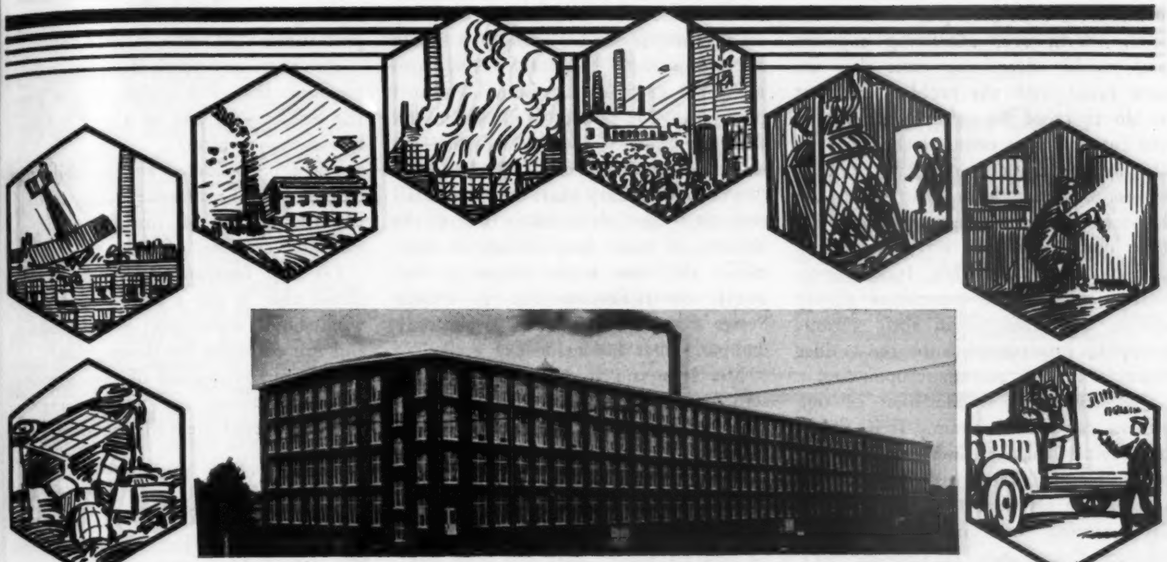
Approximately 80 per cent. of the investments of casualty insurance companies are in the highest grade securities which have an extremely marketable quality.

The same thing is true of casualty company stocks as of insurance stocks as far as their investment values are concerned. Particularly during the last five years has the trend of insurance company investments grown stronger, until a very productive field has opened for investment in insurance stocks.

Credit executives who are particularly interested in the investment background for insurance stocks might well consult Best's Insurance News, published by the Alfred M. Best Co., Inc., 75 Fulton St., New York City.

Investment Possibilities of Fire Insurance Companies
By Ralph B. Ives, President, Aetna Insurance Company

In order to keep pace with the rapid development of the country, fire insurance companies must be larger and better financed. This is the opinion of Ralph B. Ives, President of the Ætna Insurance Company of Hartford, Conn., expressed in an address before a gathering of bankers, merchants, manufacturers and insurance special agents at Oskkosh, Wis., recently. He pointed



out that business expansion has been so great in the past that insurance companies have been hard put to carry the load. With ever increasing expenses and steadily decreasing rates they are now faced with the problem of what to do to meet the economic needs of the future. It is essential that they be able to meet any contingency, that they be strong enough to withstand the heaviest shock a conflagration might inflict upon them. To arrive at such a position of stability Mr. Ives believes that many present companies should merge, thus creating in their various groupings impregnable bulwarks against financial disaster attendant upon fire.

Fire insurance is the basis of our present day credit system. It is, therefore, vital that business men know more about it, Mr. Ives contends. "I am glad to say that the banker is today growing more interested in the subject of insurance, because the very stability of his bank depends upon the support it gets from the fire insurance companies," he said. "Consequently, they really are or should be much more interested in the character of the insurance companies than the insurance company is in the bank."

In explaining how to read intelligently the financial statement of a fire insurance company, Mr. Ives laid particular emphasis upon its surplus and reserve. "When you look at the statement of a fire insurance company, look at two things," he said. "You need not spend much time over its capital. That will always be right, for state supervision keeps it so. But look carefully at its surplus and at its unearned premium or reinsurance reserve and notice how much business it does and how long it has been operating. You can judge immediately whether it is a company whose policy you want to have tucked away in your safe to protect your own property."

He showed the difficulty a new company encounters when it begins business, going, incidentally, into the method by which reserves are built up. Naturally, stockholders are asked to pay in a surplus equal to the capital with which to finance operations until such time as the volume of business permits independent support. State laws require a fixed percentage of the individual premium to be set aside for a reserve fund, thus making it necessary to dig deeply into the company's surplus to pay expenses. As soon as the first surplus subscribed is exhausted it of course becomes necessary to obtain more. The process is indefinite and with heavy competition and steadily increasing expenses, it is not hard to account for the high mortality among new insurance companies which are not properly financed. "They can make the grade on the basis of annual premiums, but if they write three and five year policies, as they will have to do, it just can't be done," Mr. Ives said. "In the last twenty years only one small company has succeeded without the backing of other large insurance companies and what is the reason: It had one of the richest men in the United States supporting it. This is the only company that has made the grade."

Mr. Ives said it is not to be construed from his remarks that he looked with disfavor upon the establishment of more insurance companies. There should be more companies, but they must be strong. "The expansion of this country has been so great that the insurance companies have not been large enough to carry the load, so we need more and larger companies," he said. He was particularly emphatic, however, in expressing the belief that they must be operated upon such a firm basis that no contingency can shake their stability. He thinks the only way for groups of the companies doing business today to increase their strength is to merge. "Companies have to join together to reduce costs. If four or five companies can be operated at the expense of one, this should be brought about, for it is more in the interests of every stockholder and every buyer of insurance than it is to the company itself . . . . Insurance companies have got to be larger. They have got to have more capital. They must have more surplus. They really must grow as large as the biggest bank, and they must be so strong that they are conflagration proof."

Hazardous Questions

The following are a series of seven pertinent questions that it might be well for every credit executive to ask himself. It is also important that his debtor merchant should ask himself these questions, and make sure that the coverage is adequate to guarantee him as a credit risk in case of contingencies.

Am I fully covered on insurance on all my buildings and equipment?

Should there be a fire, what protection do I have for expenses that must be paid, although daily operations have been temporarily discontinued?

If there has been an appreciation in my property values, has my insurance coverage increased in ratio to this appreciation?

Are there any particular preventative measures that will enable me to lessen the fire hazard, and as a result reduce my insurance rates?

Have I considered the possibility of reducing my insurance rates through the installation of fire extinguishers, sprinkler systems, etc.?

Do my insurance policies have a clause that makes a policy void if the wind should wreck part of my building and fire continue the destruction?

Is there any method of saving money by systematizing my fire coverage so that my stocks are fully covered at all times?

Windstorm Insurance

It is rather unusual that windstorm losses throughout the United States are not covered by insurance. Millions of dollars worth of damage is caused each year, and a very small part of this is covered by insurance. Many of the other hazards for which insurance offers protection can be controlled to a certain extent but windstorms are beyond the control of man, and the only defense there is against them is insurance to pay the damage they cause.

It might be well for every credit executive to get any windstorm statistics that are available and note the section of the country in which the greatest loss occurs, then determine whether you have any accounts in this section. If so, it might be well to look into the matter of windstorm insurance coverage.

Automobile Insurance Check-Up

It might be well to check up on your own automobile insurance and your debtor merchant's automobile insurance and find out if he has full protection under the following five headings:

1. Public Liability.
2. Property Damage
3. Fire
4. Theft
5. Collision

In case you want any information on any of these five headings, CREDIT MONTHLY will be glad to answer your questions or better still, see your broker.

What Foreign Trade Means To You

(*Continued from page* 11)

6% decline in revenue and a 25% decline in net operating income.

An outlet of even 10% of his normal production to a foreign market which is maintaining a better proportion of its normal purchasing power than is the United States may therefore mean that the American manufacturer possessing this foreign outlet can earn his bond interest or at least get "a new dollar for an old one" in times of stress, instead of entering on his books in red ink the interest, maintenance, staff salaries and other charges on a plant which stands idle.

The whole subject of foreign trade is broad and deep; the problems contained therein are not to be solved with generalities and a group containing the varied units which compose American industry must necessarily afford many special cases. But for many of those industrials whose size and kind of business make foreign trade possible and advisable, I believe that a proportion of about 40% of the total sales derived from foreign markets is desirable. With nearly two-thirds of its business in the home field and the remainder diversified among a number of foreign markets, such a company still has a large stake in the forward march of American prosperity, is insured against the loss of too large a proportion of its market through any single set of foreign developments and still has two valuable sheet anchors in the slowness and the reduced intensity with which any untoward economic changes at home are likely to be reflected abroad.

"Watch Those Credits!"

THAT credit is the sun around which the planets of business revolve has long been considered an economic truth. Whenever a recession cuts its channel through the business plateau the emphasis placed on the sound administration of credits is unusually great. When business is good there is a tendency to forget the fundamental power of credit. For the past six months the necessity of proper credit administration has been featured in the press.

The Commercial Bulletin in a recent issue, carried an editorial on "Watch Those Credits!" A few excerpts follow:

"If there is one thing more important than increased sales effort, when business conditions are subnormal, it is increased watchfulness of credits. Particularly is this true with the retail grocer of moderate size, who extends some credit and who, of necessity, does not have the machinery for controlling this department that is available to the larger retailer.

"Remember that no matter how strong your desire to do a good turn to your **customers, cash must** be forthcoming to meet your own bills. The wholesalers and manufacturers from whom you secure your supplies must have their money. They are tightening up on their own collections, not because of any desire to be 'hard boiled' but because the whole financial structure of the country demands it."

Worthless Checks

Richard Hellmann, Inc., reports that an individual using the name of Collin A. Hastie has appeared in Texas, representing himself as an employee of that Company.

Richard Hellmann, Inc., state that they have no employee of that name. A check drawn by this individual and cashed on the representation that he was the superintendent of the plant of Richard Hellmann, Inc., at Nashville, Tenn., has been returned as worthless. There is no Hellmann plant at that point.

Paying the Credit Manager a Bonus

(*Continued from page* 17)

(5) A penalty of 10% on the "write off" that is in excess of the quota percentage.

(6) The Credit Manager's guaranteed salary to be $500 a month.

Now let us imagine we are in January 1930 and that we are calculating the Credit Manager's bonus for 1929. Assume the results were as follows:

1. Total balances $2,600,000
2. Total charge sales for year 1,140,000
3. Total collections 42% 1,092,000
4. Total write off 10,000

Calculation:

Actual charge sales	$1,140,000
Less quota	1,020,000
Excess over quota	120,000
Bonus 1%	$1,200
Actual collections	1,092,000
Less 40% of 2,600,000.00	1,040,000
Excess over quota	52,000
Bonus 2%	$1,040
Actual write off	10,000
Write off allowed 1% of 1,140,000	11,400
	1,400
Bonus 10%	140
Total Bonus Payable	$2,380

The Credit Manager's total remuneration therefore would be:

Salary for year	$6,000
Bonus as above	2,380
Total remuneration	8,380

Had the collections averaged 41.9% instead of 42% the bonus on collections would have been 1% of $49,400 or $494 instead of $1,040. If the collections had been 39%, the Credit Manager would have been penalized $260, which equals 1% of the difference between the collection quota $1,040,000 and $1,014,000, which latter sum equals 39% of $2,600,000. The penalty of $260 would be deducted from the bonus due on charge sales thus:

Bonus due on charge sales 1% on 120,000.00	$1,200
Deduct penalty 1% on collections that were $26,000.00 less than the quota	260
	940
Add bonus on write off below quota	140
Total bonus due	$1,080

If the write off had been more than 1% of the total charge sales a penalty of 10% on the excess would have been imposed.

It does not take much imagination to see the tremendous stimulus such a plan is to a credit manager. He dare not let up on his collections and he dare not relax his vigilance of applications. The plan works for him and against him, keeping him in the straight and narrow path as far as is humanly possible.

And where does the store come out in the first example given above, where the credit manager's bonus was $2,380? How much did the store gain?

Assuming the store makes on the average, after Income Tax deductions, 5% on its charge sales, and that it pays 6% on borrowed money, it would make:

$120,000 increased charge sales @ 5%	$6,000
52,000 increased collections figured @ 26,000 for 12 mos., 6%	1,560
1,400 saved completely	1,400
Total gain	$8,960
Less bonus to Credit Manager	2,380
Net gain to the store	$6,580

In the example where only 39% was collected the result would be:

120,000 increased charge sales 5%	$6,000
1,400 saved in write off	1,400
	7,400
Deduct Credit Manager's Bonus	1,080
Net gain to store	$6,320

In the latter case it may be argued that the store was compelled to borrow more money from the bank because collections had not reached the desired quota of 40%. So if we figure that it was necessary to borrow the difference

$26,000 and calculate interest at 6% for six months, the sum of $780 would have to be deducted from $6,320, leaving a net gain of $5,540.

The net increase to the store in the first example is equivalent to a net profit at 5% on $131,600, or 1% on $658,000. Who would not pay a bonus on such results?

It is not to be assumed that the percentage rates used above are suitable for all stores. It is the principle on which the bonus is calculated that should be taken into consideration and percentage rates determined to suit individual conditions.

In our Credit Department it is interesting to watch the spirit in which the bonus is calculated month by month and to see the splendid enthusiasm that prevails, for it will be observed that the figures change constantly and the victory is not won until the last month is complete. We have a credit department that works 100% for the store; we are proud of the results achieved. Charge sales have increased, collections have increased and "write off" has decreased. We are confident the principle we have adopted is sound, and are therefore glad to recommend it to any store that wants a better, brighter and happier credit office.

Interchanging Credit Information

(*Continued from page* 20)

change of Credit Information and it is this phase of the subject which is perhaps of prime interest to bankers. Here it is that the true mettle of the banker is often found and his spirit of co-operation developed. Many a firm has been saved from the rocks by the true and frank interchange of credit information on mutual accounts, which brought to light a condition needing care and attention and which the banks at interest were in time to administer. It is so much better to get together on mutual accounts before the development of any serious trouble so that preventative measures may be applied, than to try to go it alone and then meet on the mourners' bench! The Credit Department may not generally be considered a producer but is always of importance as a conserver of revenue. By the timely interchange of information, particularly in such times as are now being experienced, it can very quickly establish for itself a permanent place in the administration of the business. And yet, despite the manifold advantages which may accrue, it is to be deplored that we find every now and then a violation of the principles involved, needful of harsh censorship, or sympathy, because of lack of understanding of the broader vision which comes through this form of co-operation.

A rather interesting incident might be cited as an example of the lack of the proper spirit of interchange. One of our customers, who operates a sort of chain store, had maintained a very nice non-borrowing account with us for some time, with balances running well into the four figures. We were approached by the president and principal owner for a personal loan to be secured by stock in the operating company. The usual financial statement was submitted and, it is admitted, made a tolerably good showing. Letters of inquiry were sent to all the banks of account, with clear indication of the matter before us. We also checked with the trade and asked the usual agency reports. Practically all of the answers received from the other banks of account indicated satisfactory experience and expressed high opinion of the management. However, one letter,

(*Continued on page* 44)

The Business Library is the window through which you may see the panorama of business progress and development.

Conducted by
Frank A. Fall, Litt. D.
Director of Education and Research
N. A. C. M.

THE BUSINESS LIBRARY

As a Man Thinketh

THE ART OF BUSINESS THINKING. H. G. Schnackel. John Wiley & Sons, Inc., New York. 1930. 160 pp. $2.50.

The author of this stimulating book is an accountant, and a member of the Taylor Society, the Society of Industrial Engineers and the American Society of Mechanical Engineers. In the preparation of the material he had the collaboration of Alfred L. Sprecker, formerly instructor in psychology and pedagogy at Marietta College.

Mr. Schnackel's objective is to give business executives such psychological facts as will help them to cultivate effective thinking, and to answer for them two important questions:

1. What do we do when we think?
2. What should be done to improve our thinking?

The first six chapters, constituting Part I under the general heading "A Study of the Executive Mind and Mental Life," tell what psychology does for the executive, and discuss attention, imagination, memory, habit and reasoning in their bearing on mental efficiency. Part II (Chapters VII and VIII) deals with "Executive Qualifications and Proper Mental Attitude." An "Addenda" section presents a brief treatment of the parts of the nervous system of which we have the clearest and least disputed knowledge.

The book makes out a good case for the psychologist as a mental engineer. The executive mind, says Mr. Schnackel, is a manufacturing plant in itself. Its raw materials are sensations, ideas, percepts, concepts; its finished product, decisions. For the determination of the validity and efficiency of his present thinking processes and for the development of a system that will insure to him maximum results from his mental activity he must turn to the psychologist, even as he would turn to a mechanical engineer for similar data and decisions concerning a manufacturing plant under his direction.

If the executive would reduce his mental activities to an uninterrupted flow of production he must know with what he is dealing. A knowledge of his physiological equipment is as necessary for co-ordination of his mental plant as is a knowledge of his mechanical equipment for co-ordination of the manufacturing plant under his direction.

To master his habits the executive must know the laws of habit formation. He must know the laws of perception before he can analyze his own perceptive processes. To make his memory a productive employee he must know its potential capability and how it functions. To control his imagination and bring it into the general plan of co-ordinated activity he must be able to distinguish efficient from inefficient functioning. Finally, to achieve the ultimate aim of the co-ordinating process and sound logical reasoning he must become familiar with what constitutes logical reasoning.

All this is sound, if not new, business psychology. And it is expressed in a clear, direct style that is most refreshing. We have encountered books in this field which were obviously written either by psychologists who knew little about business or business men whose knowledge of psychology was nothing to write home about. This is decidedly not that kind of a book. It stands up well under the acid test.

THIS MONTH'S BUSINESS BOOK

THE BUSINESS MAN AND HIS BANK (Revised Edition). William H. Kniffin. McGraw-Hill Book Co., N. Y. 1930. 332 pp. $3.00.

Of the making of books on banking there is no end, but most of them are written for bankers or for students who are preparing to enter the banking field. Here is a new edition of a work which has been of real value to many business men, including treasurers and comptrollers, credit and sales managers, and accountants.

Most of the other texts on banking have the inside point of view. This one looks at the bank from the outside. Instead of telling the banker what he should do and how it can best be done, it reveals what the business man should expect from the bank in service, and what he himself must do in order to secure for his business the fullest possible benefits of this service.

Mr. Kniffin describes the various types of banking institutions, including national and state, savings banks, trust companies, building and loan associations, mortgage and title companies and safe deposit companies. In giving counsel as to how the business man should choose his bank, he explains that banks have distinct personalities, and reputations; points out the prestige that is assured by a good banking connection; and shows how banks differ in size, administration, loaning policy and safety.

It is highly important, the author suggests, that the business man keep in the good graces of his banker, for reasons that are both financial and psychological. The business man needs good credit as a borrower and the moral support of the banker as well. The banker's good opinion is valuable in many indirect ways, and his recommendation goes a long way in any business matter.

The changed attitude of business toward banking is well brought out in this text. The business man once approached the banker as though the latter were a superman, certainly to be respected and perhaps to be feared. Until recently, banks did not generally seek business. They accepted that which appealed to them as desirable, but they did not solicit it. Advertising was regarded as an admission of weakness.

But the bank now lets its light shine. Officials have been pulled out from behind closed doors marked "private" and placed in an open space with only a guard rail to protect them from the public. Every bank of any considerable size has its new business department, which goes aggressively after its share of the community's banking business, and advertises freely.

There are literally hundreds of quotable paragraphs in this book, but we have space for only one, hoping that the sample will stimulate

U. S. and the League

THE UNITED STATES OF THE WORLD. Oscar Newfang. G. P. Putnam's Sons, N. Y. 1930. 284 pp. $2.00.

The author of this book was for many years, as credit manager of the Julius Forstmann Company, an active and useful member of the National Association of Credit Men. His "Harmony Between Labor and Capital" was reviewed in the CREDIT MONTHLY of October, 1927.

In the present volume Mr. Newfang makes a comparison between the League of Nations and the United States of America. The present century, he says, has undertaken the biggest job of all time—the abolishment of war as a method of settling international quarrels. It has been decided that physical encounters between nations are henceforth not to be considered under any circumstances as a legitimate method of settling differences.

With this end in view, sixty-two nations (all of the self-governed nations except Brazil and Argentine) have solemnly declared that "the settlement or solution of all disputes or conflicts, of whatever nature or of whatever origin, which may arise among them, shall never be sought except by pacific means." Through the Covenant of the League of Nations fifty-four of these states, members of the League, have endeavored to create the necessary machinery by which the settlement of controversies between states can be made by pacific means and by which warfare may be avoided.

Mr. Newfang rises to ask whether the machinery is adequate for the purpose, and in order to throw the light of history and experience on this important question he makes his comparison between the League of Nations and the United States of America. Here we have forty-eight states, as

jealous of their rights and prerogatives, as keenly insistent upon their interests, their prosperity, and their prestige as are any of the states of Europe or of any other continent. With one exception, which the author has not ignored, peace has been preserved among all of the member states for about a century and a half. Our states fight their battles before the Supreme Court, using brains instead of bullets. A comparison of the machinery which has achieved this result with the structure and the functions of the League of Nations is clearly important in connection with the struggle to achieve permanent world peace.

While the United States has refused to accept the League structure as it now exists, Mr. Newfang reminds us that both of our leading political parties and several of our presidents have repeatedly expressed the conviction that the preservation of international peace cannot be achieved without some kind of an association of nations. The present structure of the League should be improved, but the United States, not being a member, cannot with propriety point the way. The change may not come until a crisis of some kind divides the members into two approximately equal factions and threatens another world war.

If such a time comes we should, Mr. Newfang concludes, be willing to send some of our elder statesmen to suggest that the federal form of organization, which has proved workable for more than a century in this country, and for a shorter period in many other countries of the world, should be applied to the United States of the World.

This Month's Business Book

(Continued from preceding page)

a taste for more: **"A bank is a place where credit is created and where it is exchanged and redeemed. By virtue of its power to issue currency, bank notes are created. By virtue of its discounting powers, credit locked up in the form of promissory notes is turned into a bank deposit against which checks are drawn. When a bank discounts a note it adds the proceeds to the borrower's account exactly as if gold were deposited. It allows him to treat the credit thus created as money; for it stands ready to redeem the checks drawn upon it in money, thereby making them of the same effect as money. Business credit flows through the banks in a steady stream and the bank acts as a sort of a clearing house for credit, redeeming in one form or another the credit the business world creates. We do well to consider banking in this light, for nowhere else does credit rise to a higher achievement than in the field of banking."**

After Dallas, Los Angeles and the National Foreign Trade Convention

DELEGATES to the N. A. C. M. Convention at Dallas have an excellent opportunity to continue their journey westward to Los Angeles where the National Foreign Trade Council will hold its annual convention. This convention will be replete with offerings that are particularly significant to credit executives. From the time that Mr. James A. Farrell, chairman, National Foreign Trade Council calls the convention to order on Wednesday morning, May 21 until Dr. Stephen I. Miller, executive manager, National Association of Credit Men, closes the convention with his address, there will be three days filled with meetings and sessions that every credit executive should attend.

On Wednesday afternoon, there will be a session on Credits and Credit Information held in co-operation with the National Association of Credit Men. Mr. H. G. Brock, vice-president, Guaranty Trust Company, New York, and one of the pioneers in the Foreign Department of the Association, will address the 2 p. m. session on "Ten Years of Credit Work."

Mr. O. K. Davis, secretary of the National Foreign Trade Council, in his letter to CREDIT MONTHLY said: "The study we must give to foreign credit conditions is one of the most important objectives before our meeting. Real foreign credit information is more necessary than at any time for the past ten years, and we need the credit men even more than they need us, if we are to keep foreign trade co-operation up to the mark."

Write to CREDIT MONTHLY or get in touch with Mr. E. Balestier, Jr., N. A. C. M. Convention Director, at the Baker Hotel in Dallas for information regarding reservations for the National Foreign Trade Convention.

New Atlanta Secretary

MR. FRED H. SNED, for twenty-five years prominently identified with R. G. Dun & Company's Atlanta Office, more recently as Assistant District Manager, has been elected Executive Secretary of the Atlanta Association of Credit Men.

Mr. Sned has been an outstanding member of the Atlanta Association for many years and is well acquainted with the members of that Association.

Interchanging Credit Information

(*Continued from page* 41)

in commenting on the strength of the individual, mentioned it as —— dollars and added "at least it was" and underscored the word "was"! This naturally created a little suspicion which was thoroughly proven when a rather complete letter was received from one of the banks which "opened up" and told the true facts, which, "believe it or not" were far from favorable. This letter was confirmed by both the trade and agencies, one of whose reports was so adverse that it was only issued on "call"! We did not make the loan!

I do not believe the banks reporting favorably did so with any malicious intent. As a matter of fact, their experience may have been satisfactory and their impressions as indicated. I am sure, however, that no attempt had been made to properly check the name, for with such a record as this individual bears, it is hard to understand how loans could have been made. It is hoped the other banks get out before they have an experience similar to that reported by the one bank and the trade!

One could cite instance after instance of the value of discussing the affairs of mutual customers, but sufficient has been said to make those who perhaps have been a little backward in this respect to "stop, look and listen" and then fall in line for their own good. It may be well to recall the adage of the old sage who said "If you have a coin and I have a coin of like value and we exchange, neither has been enriched by the transaction; but if you have a thought and I have a thought and we exchange, while neither loses, we have both doubled our wealth of information."

This brings us to still another phase which may be included under this subject and which is, perhaps, fully as important, if not even more so, than any of the other divisions discussed. Reference is made to the interchange of Credit Information between the officers within their own bank. It is doubtless true that in many banks, and particularly the smaller ones, much of the most valuable credit information is not available for the bank's use, because it is stored within the heads of the lending officers instead of having been transcribed in writing and properly filed in the Credit Department. How often has the death or resignation of an officer left the remaining officers completely stranded as to course of procedure to follow with reference to the continuation of the loan policy pursued on a specific account, simply because no memoranda had been filed by the one who has gone. To the writer, it is the absolute duty of all officers to contribute most generously to the written information which should be in the Credit Department. Every bank, regardless of size, should have some kind of Credit files, adequately kept, with accounts properly analyzed and regularly revised. It has been said that the best avenue for new business development is with the banks' own customers. So it is with the Interchange of Credit Information—the best to be had is from the bank's own officers by virtue of their constant contact with the customers and general public. The Credit Department cannot properly function without this support; it must come from within as well as from without. Not only that, but once the information has been gathered and analyzed, it must be utilized to be of real service. In fact, the value of the Credit Department to an institution can be definitely measured by the support it receives from the officers and the use which they make of it. I think it must have been the Credit Department which J. Mason Knox had in mind when he wrote those now famous lines:

"It ain't the guns nor armament,
Nor funds that they can pay,
But the close co-operation,
That makes them win the day.

It ain't the individual,
Nor the Army as a whole,
But the everlasting team-work
Of every bloomin' soul".

This same co-operation which should be given the Credit Department by the officers of a bank should likewise be given by the sales force and management of the mercantile business. This should and must be given, not from the viewpoint of pyramiding sales but of conserving and building up profits.

So it is hoped this matter of the proper interchange of Credit Information will receive the reader's full consideration, and will stimulate that cooperation needed to make a success of this phase of our economic life which is built on the high platform of mutual service. If this be done, it will be found, that like "the bread cast upon the waters" the efforts thus expended will redound to the benefit of the whole system and thus will come back to each one in full reward.

ANSWERS TO CREDIT QUESTIONS

Conducted by E. Paul Phillips

Real Estate

Q. To what extent can real estate, listed among assets in a financial statement received from a customer in Wisconsin, be considered an asset of the business when the same is held in the name of the customer and his wife who is not a partner in the business?

A. The answer to this question depends entirely upon the nature of the title held by the husband and wife. A conveyance to a husband and wife may create any one of three conditions, either

(1) A tenancy by the entirety, in which event the property could not be reached for the debts of either spouse until after the death of the other, or

(2) A joint tenancy in which event an undivided one-half interest in the property can be reached for the debts of either spouse, but which would require the maintenance of an action of partition before the property could be sold, or

(3) A tenancy in common, in which event each spouse would own a specified portion of the property outright.

The proper way in which to determine the availability of the real estate for satisfaction of the husband's debts is to employ an attorney in the locality where the customer is situated and request a report as to the nature of the title.

Consignment Contracts—Tennessee

Q. (a) Please advise whether placing merchandise on consignment in a store in the state of Tennessee gives the consignor the right to exercise precedence over goods that have been placed merely on memorandum, or mortgage liens?

A. We cannot express an opinion with respect to the respective rights of a consignor of merchandise and a chattel mortgagee under the laws of Tennessee, and this question should be referred to a Tennessee lawyer. However, a valid consignment agreement is nothing more nor less than a bailment or agency agreement and, if properly drawn under the laws of any state, (with the exception of Pennsylvania and possibly one or two other states) the rights of the consignor are superior to those of the landlord, and everywhere, so far as we know, are superior to the rights of any other persons whatsoever. In other words, the consignee has no title which he can convey to a third person, nor are the goods subject to levy or attachment.

Q. (b) Would it be considered doing business within the meaning of the Tennessee statute if a corporation placed a stock of goods on consignment with a dealer?

A. There are decisions in Tennessee to the effect that a foreign corporation consigning goods to a local company for sale on a commission basis is not doing business in the state so as to require compliance with the foreign corporation laws, nor does the requirement that the goods be kept insured by the consignee in the name of a foreign corporation, alter the situation. *I. J. Cooper Lumber Co. vs. Johnson.* 133 Tenn. 562.

In another case the consignee agreed to store, insure and pay taxes upon the consigned merchandise, and it was held that the corporation was not doing business in the state so as to require qualification under the foreign corporation laws. *Mitchell Wagon Co. vs. Poole,* 235 Fed. 817.

It is important, however, that the agreement between the consignor and consignee be strictly a bailment or consignment agreement, for the United States District Court in Tennessee, in *Meyer vs. Judd,* 1 Fed. (2nd) 513, held that an unqualified foreign corporation which had sold motor cars to its agents in Memphis, under a conditional sales contract not only could not sue for the purchase price, but was not even permitted to recover its own property. This is an anomalous decision and contrary to the rule in most jurisdictions.

As to Legal Advice

THE National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in the Credit Monthly. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principles of law involved.

Sales Contracts

Q. Can reasonable costs of collection including attorney's fees be recovered if such a clause appears in an ordinary sales contract as one of the conditions of sale? Please give case citations with respect to the legality of such a clause from a collection standpoint.

A. There is no doubt in our mind as to the validity of a clause in a sales contract to the effect that the buyer will pay attorney's fees in addition to the contract price of the merchandise in the event he defaults in payment, and the account is collected by an attorney. We are not able to cite adjudicated cases except cases involving similar clauses in promissory notes. A promissory note or other negotiable instrument is merely another kind of contract, and the fact that the clause is valid when written into a negotiable instrument is sufficient authority for the validity of the clause in an ordinary contract. See 2 Uniform Laws Annotated; Negotiable Instruments, p. 27 ff.

One Month's Convictions

Credit Protection Department of the National Association of Credit Men

FEBRUARY, 1930

CASE	INDIVIDUAL	CHARGE	SENTENCE
Eastern Novelty Company, New York City. (Silks)	Rosen, Harry B.	Use of mails in a cheme to defraud	18 months
Goldstein Bros. & Co., New York City. (Woolens)	Goldstein, Louis	Issuance of a false statement	Sentence deferred
Philip H. Kafka, tdg as Sidney Dress Company, Boston, Mass. (Dresses)	Philip H. Kafka	Conspiracy to conceal	18 months
	Bertha Kafka	Conspiracy to conceal	1 year and 1 day
	Milton H. Kafka	Conspiracy to conceal	Suspended sentence, placed on probation for 1 year
	Henry H. Kafka	Conspiracy to conceal	Suspended sentence, placed on probation for 1 year
	Martha Kafka	Conspiracy to conceal	Placed on probation for 1 year
	Dr.M.Martin Kafka	Conspiracy to conceal	Placed on probation for 1 year
	Ben Stein	Conspiracy to conceal	Suspended sentence
	Rose Wulin	Conspiracy to conceal	Sentence deferred
Wade & Company, DeLand, Fla. (Dept. Store)	J. C. Wade	Concealment of assets	1 year and 1 day
	E. Derrell Witt	Concealment of assets	Suspended sentence
Samuel H. Winer, Pittsburgh, Pa. (Shoes)	Samuel H. Winer	Use of mails to defraud	Placed on probation for 1 year
Waldo Hardware Co., Rumford, Maine. (Hardware)	Alfred J. Freve	Concealment of assets	Suspended sentence, placed on probation for 1 year
Holmes Hardware & Furniture Company, New Port Richey, Fla. (Hardware & Furniture)	M. A. Holmes	Concealment of assets	Suspended sentence
Plymouth Clo. Co., Minot, N. Dakota. (Clo.)	Jay Gordon	Violation Postal Laws	Fined $200.00
Theo. M. Backiel, d.b.a., Caniffe D. G. Co., Detroit, Mich. (Dry gds.)	Leo Schrot	Conspiracy to conceal assets	6 mos. Detroit House of Correction, fined $1,000
	Chas. H. Zwerling	Conspiracy to conceal assets	4 mos. Detroit House of Correction, fined $1,000
Max Kelly, alias F. M. Frizell, Jr., alias W. H. Burch, alias Mack Kelly, alias W. H. Fariss, Louisville, Ky. (Auto mechanic)	Max Kelly	Forgery, obtaining goods under false pretenses and Grand Larceny	8 yrs. Eddyville State Prison
Excel Electric Co., Chicago, Illinois. (Elec. supplies)	Peter B. Freund	Conspiracy to conceal assets	Sentence deferred
	Gertrude Davis	Conspiracy to conceal assets	Sentence deferred
Reliable Tailoring Co., 3541 S. Halsted St., Chcago, Illinois. (Tailoring)	Meyer Goldstein	Violation Postal Laws	Fined $100 and costs
Emil Moroni, Johnson City, Ill. (Furniture & gro.)	John Moroni	Conspiracy to conceal assets	1 yr. and 1 day Leavenworth Penitentiary
C. C. Bartlett, alias J. J. Packard, d.b.a. Champion Evaporator Co. (Glass specialties)	C. C. Bartlett	Forgery	5 yrs. Ohio State Penitentiary

Total of 897 Convictions from June 1, 1925, to February 28, 1930

Arbitration vs. Litigation in Credit Administration

(*Continued from page* 21)

award, determining the interest of each party in the properties, and the case was disposed of without the loss of good-will or damage to the credit of either of the partners.

In still another case, involving $17,000, a manufacturer of clothing claimed that a shipment of woolen cloth bought from a mill was below the standard specified in his order and refused to pay the full amount of his invoice, admitting at the same time that the cloth could be used by him at a reduction in price. The mill denied his claim and prepared to sue for the amount of the contract. Later both parties agreed to arbitrate the matter, and as an evidence of his good faith, the manufacturer deposited with the arbitrators his certified check for $10,000, with the understanding that he would pay any amount in addition to his deposit as determined by the arbitrators. Experts, acting as arbitrators, decided that the cloth was of an inferior quality, allowed the manufacturer a certain deduction in the purchase price, and the case was settled without tying up a large quantity of merchandise, which would have been out of style, or certainly unseasonable by the time a law suit could have been disposed of. There was no damage to the credit of either party and no reflection on their integrity. The arbitrators, in a friendly way, disposed of an honest difference of opinion as no jury could possibly have done—and the jury would have had no expert knowledge to guide them.

But, while these firms learned the value of arbitration after a controversy had arisen, other firms have learned its use as a preventive of commercial ills. A firm of importers and wholesalers in New York City reported to a representative of the American Arbitration Association that it not only finds the use of an arbitration clause in its contracts an excellent and speedy factor in a fair private adjustment of any dispute which may arise, but that, in its sixty years of business, it has learned that an arbitration clause makes a better credit risk. As this firm in 1929 protected a $40,000,000 volume of business by contracts containing arbitration clauses, its opinion should be of considerable value. And this is not an isolated case. Hundreds of firms doing a tremendous volume of business insist that every contract to which they are parties shall contain arbitration clauses, agreeing to settle by arbitration any future dispute that may arise under the contract.

What appeals particularly to business men in this method of disposing of their controversies is the simple procedure and the final and irrevocable nature of the decision, which in arbitration is called the award. When an award has been rendered it may be filed in court and upon a simple motion it will be confirmed and become a judgment of the court. There is but one way in which the award of an arbitrator may be attacked, and that is when the court finds that the arbitrator has been biased, has violated his oath or has stepped beyond the confines of the matter submitted to him. In other words, when a party receives a decision in court it may be only the forerunner of further litigation, with appeals and motions and re-trials and perhaps, still further appeals; but at the conclusion of an arbitration hearing he knows that he has arrived at the final conclusion of the dispute, insofar as the merits of the controversy are concerned. It is ended and he proceeds to other matters and business in hand. No cash reserves need to be set aside to cover further litigation. Commodities are not tied up, to decrease in value or become worthless, pending the settlement of legal action. Assets are freed for other uses and good-will is not strained to the breaking point.

Arbitration is also admirably adapted to the settlement of disputes arising between creditors and a debtor, where the latter is insolvent and assets are being liquidated. Business men have learned that when these cases are dragged into the courts, not only are both sides losers, but the amount received by each creditor is greatly reduced. A very small percentage of such cases involve questions of law and need to be settled by the courts, but the great majority lend themselves to a far more satisfactory method of settlement—by arbitration, which provides a speedy, economical and efficient way of disposing of them and, what is also important, a friendly way. The method is speedy because long delays caused by a crowded court calendars are avoided; economical, because administration costs are reduced to a minimum; efficient, because assets can be disposed

(*Continued on page* 49)

IN THE MODERN OFFICE

An idea and experience exchange on equipment, system and management in the modern credit and business office.

Burroughs Portable Electrified

The adaptation of electricity to the Burroughs portable adding machine, without increasing its size or sacrificing compactness or portability, is announced by the Burroughs Adding Machine Company.

The machine's original proportions are maintained as the motor is built into the mechanism without enlargement of the case. The motor will operate from any electric outlet, on direct or alternating current, on any voltage and range of cycles.

The new machine does much of the work automatically and naturally is considerably faster than the hand-operated machine. A simple operating bar, which operates at a touch of the finger, takes the place of the adding machine handle. The machine itself weighs about 25 pounds, can easily be carried from place to place and may be safely used on the sliding shelf of a desk. It is being produced in styles and capacities for various uses, as is the hand-operated portable which is being continued. More than 225,000 of the latter have been placed in customers' hands since it was brought out only four years ago.

The electric portable is expected to open new fields for adding machines for desk and general office use where fast, light machines are desired but have not been available; and in operations where the hand-operated machine has been found efficient but where the greater speed and ease of electricity are preferred.

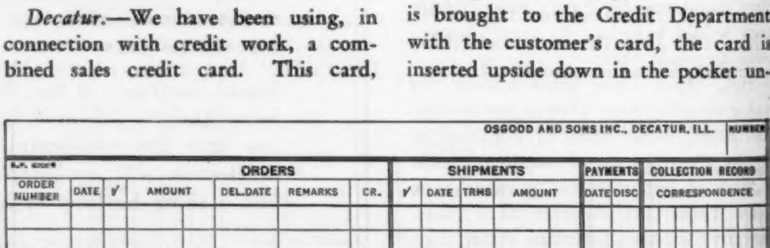
Adding electricity to the portable machine gives it much of the operating efficiency and calculating range of the larger electrically-operated Burroughs units. Sub-totals and totals are taken simply by pressing the desired keys. It is not even necessary to press the operating bar. Electric consumption is minimized as the motor operates and current is used only when the motor bar is depressed.

An Efficient Credit Folder

Decatur.—We have been using, in connection with credit work, a combined sales credit card. This card, which is illustrated, is 4 inches x 6 inches. All orders are entered on this card as received, and the card with the order is placed on the Credit Manager's desk for his O. K. The card is initialed by the Credit Manager under the column headed Cr. The O. K. is placed on the order also. The cards and the orders are then separated, the orders going to the order department and the cards back into the files.

At one time, we had difficulty in connection with shipping merchandise to customers who had past due accounts, and to overcome this we have adopted a folder system which completely eliminates the difficulty. The folders we use are of oaktag. A celluloid tab clipped on to the edge forms a pocket on the inside of the folder.

When a customer's account becomes past due, a copy of the invoice is brought to the Credit Department with the customer's card, the card is inserted upside down in the pocket un-


OSGOOD AND SONS INC., DECATUR, ILL. NUMBER

ORDERS							SHIPMENTS				PAYMENTS		COLLECTION RECORD
ORDER NUMBER	DATE	✓	AMOUNT	DEL. DATE	REMARKS	CR.	✓	DATE	TRMS	AMOUNT	DATE	DISC	CORRESPONDENCE

SALESMAN TERMS LIMIT DUNS CCH STMT DACH

STATE TOWN NAME

1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31

der the celluloid tab on the inside of the folder, and the invoices, together with any carbon copies of correspondence, are kept in this folder until the account is paid.

If any new orders come in, it is necessary to bring them in to the Credit Department where the customer's card will be found and record them on the card, which automatically brings it to the attention of the Credit Department.

F. W. SIMMERING
Osgood & Sons, Inc.

Arbitration vs. Litigation in Credit Administration

(*Continued from page* 47)

of more intelligently and quickly and with greater care. And in this more friendly way of adjustment means may often be found of putting the insolvent ones back on their feet.

It would be of value to a banker in considering financing or extending credit to a concern to know whether it prefers arbitration to litigation, and such information would be helpful in estimating the risks involved. And certainly it would be in order for the agencies that furnish information as to a business man's credit rating to include among his assets the fact that he uses an arbitration clause.

Quite a long time ago a very distinguished lawyer said that the chief function of the lawyer was to keep his clients out of court. Probably in the near future, one of the functions of a credit man will be to keep his firm free of the costs of unnecessary disputes and thereby build up still another item in its credit.

Prospects For Steel Construction

(*Continued from page* 23)

in steel construction has been largely predicated upon the relative economy of this type of construction and upon the desire of investors to make sure of their investments. It is therefore not surprising to the industry at large that the figures of new contracts and shipments are just now running so high while the trend of general business has been so low. During the first months of 1930 the tonnage reports to the Bureau of the Census bore this assertion out admirably. We have no reason to believe that the tendency will alter materially even should general business remain dull and quiescent throughout the spring of this year.

Is China a Good Credit Risk?

(*Continued from page* 27)

with modern methods of transacting business and it is really quite unnecessary to give him credit, for if he wishes to do direct business with foreigners, he can arrange the required banking credits. Though, naturally, he will try and get the same facilities overseas as he may be getting locally, it is not the soundest policy when dealing with Chinese importers to adjust one's terms according to the acquaintance or ignorance of the buyer with export terms and methods. It is best to be firm to start with and insist on payment before goods leave port of shipment, and though the Chinese in agreeing to this will undoubtedly buy smaller quantities in order not to tie up too much capital, the credit risk will be more than proportionately smaller.

In conclusion, the credit position in China may be summed up as follows: the more the Chinese can be judged by personal contact, the better idea can one get of the credit risk involved. With a branch in China, the credit risk is, on the whole, good; but far away, without any previous opportunity of studying the man one is dealing with through a personal talk, the credit risk is only good when no risk is taken. In view of the growing importance of China as a market for American merchandise, no manufacturer, no exporter, and no jobber can afford to neglect this fertile field.

How to Get the Money

(*Continued from page* 28)

enable them to pay their past due balances and to eventually get on a discount basis.

It was not a big job for the credit men to prove by actual figures that the skeptic could not meet the prices of the Chains unless he discounted his bills. It is the discount earned by the independent retail grocer that enables him to reduce his price per can or per pound to meet the prices quoted in the Chain advertisements.

It may be truthfully said that there is a selfish reason why the wholesale grocer's credit department should urge the formation of an organization among retail grocers. This reason is written between the lines of this article, and in the title.

We have organized the independent retail grocers in our city. While it is true that the organization is still in its infancy, it has done and is doing wonderful work for the retailer and for the wholesaler. The small grocer who formerly ran his business in a haphazard manner, has listened and has awakened to the truth of the situation as it exists, not only in our city, but all over the country as well.

In paraphrasing Mr. Kipling, the writer believes (this from experience):

"If you, Mr. Credit Man, can get the retail grocers to organize, to do a credit business with people really entitled to credit (those approved by the organization's secretary):

If you can get the retail grocer to discount his bills;

If you can get him to see the advantages in modern methods of business;

If you can build up the good will for your firm by diplomatically making the retailer realize that he is indebted to your firm for valuable assistance rendered in the past and present—then —You're a credit man my son, you're a credit man because you will get your firm their money."

However—"if you cannot get an independent retail grocer to join the organization for his and your good;

If you cannot convince him of the necessity of cleaning up, painting and rearranging;

If you cannot get him to discount or at least reduce his past due accounts;

If your 'alarm' of persuasion and advice will not wake him up—then—

Put him on a cash basis my son, and take your loss with a smile."

From the Mental Mint

It is always better to tell a little less than you know instead of a little more than you know.

A quick decision is like a locomotive coming straight toward you—you never see the long train *of thought* behind it.

Striving and driving bring thriving.

Don't make the mistake of believing that discussion is thought.

The unsuccessful man is a single chord—the successful man is a symphony.

Followers are tool users. Leaders are tool makers.

Too much *entertainment* means less *attainment*.

Isn't the *lure* in *failure* the relief failure brings from the heavy burden of responsibility?

To get up in business you must get down to business.

Most men have sailed into the harbor of success on hard*ships*—not dream-*ships*.

The man who is clicking and ticking never takes a licking.

Say what you think—not what you think your boss thinks.

The man who helps you the most is not the man who does things for you but the man who lets you do things for yourself.

The most important part of *fact* is *act* because it is more difficult to use facts than to find them.

The power of suggestion makes many men successful executives.

The power of digestion keeps them there.

Wide awake ugliness is three times as valuable as sleeping beauty.

. . . C. H. M.

Addresses Wanted

This column is read by some Credit Managers before any other feature of the magazine. Any member of the National Association of Credit Men can have names listed herein. He has only to send the names to the secretary of his local Association of Credit Men or to S. Ardron, Jr., Credit Protection Department, N. A. C. M., One Park Ave., New York. Members are requested to mention the line of business as well as the last known address.

BARTON, B. A., Barton Bootery, 7542 Michigan Ave., Detroit. Last seen in Seattle. Retail shoe business.
BENNETT, HARRY, Mobile, Alabama. Retail shoe business.
BERMAN, PHILIP, United Provision Company, Providence.
BROWN, W. H., farmer, formerly Dorchester, Texas, now reported to be near Sherman, Texas.
BROWSKE, MARY (MRS.), 1710 W. 87th Street, Chicago (Grocery).
CARROLL, THOMAS J., Prop. (National Wholesalers), 256 Main St., Gloucester, Mass. Also 88 Flint St., Salem, Mass.
CLARKE, E. E., operating as the Conway Service Station, Conway, Texas.
COURI, KATE (MRS.), 2359 W. North Ave., Chicago (Grocery).
CRAGIN, CHARLES G., formerly of Kermit and Stephenville, Texas.
DELER, C., Operating as Blue Bird Drugs, 7901 Michigan Ave., Detroit.
De PIERRO BROS., 682 E. 231st Street, Bronx, N. Y
DEROE FLORIST, 64 Fordham, N. Y. C.
DE ROSA FURNITURE COMPANY, formerly 55 W. 19th St., N. Y. C.
E. & M. GARAGE & SALES COMPANY, Englebrecht & Muck, Props., 1602 E. Manchester, Los Angeles.
ERWIN, ROY B., formerly operating the Ford Service Station, Richland, Texas; later operating a tailor shop in Abilene, Texas.
ESKENASY, JACOB, Eskey Preserving Co., 2132 Washington Ave., Bronx, N. Y. C. Last known address, 1936 Crotona Ave.
FLAUM, MORRIS, 87 Ludlow Street, N. Y. C.
FREEDMAN, REUBEN, 386 Kingston Ave., Brooklyn, N. Y.
FRIEDMAN, S., The Boston Store, Falfurrias, Texas (Retail shoe business).
FRYE, R. L., Electrical contractor, formerly residing at Midland, Texas. Last heard of at Girvin, Texas.
GANGUZZA & SON, ANGELO, 289 Summer St., P. O. Box 23, Carlstadt, N. J.
GATES, VERONEN, formerly operating bakery at 2715 Dauneel St., New Orleans, La., and living on the premises. May be in Mississippi.
GOLDBERG, H., Admiration Hose Co., 505 Fifth Ave., N. Y. C.
GOTTESMAN, MORRIS, formerly 265 Neptune Ave., Brooklyn, N. Y.
GROHER, EDWARD F. Court Ave. and Spring St., Jeffersonville, Ind. Understand he is located somewhere in Calif.
HAAS, V., 4521 St. Peter Street, New Orleans (Grocery and Meat Mkt.).
HALPERIN, PHILIP, 813 South St., Philadelphia.
HANNINEN, DAVID, formerly operated a general store at Chassell, Michigan. Now believed to be in Detroit.
HARELICK (H.) (ROSE) & (BEVERLY), N. Y. C.
JACOBS, J. L. & Co., formerly of 7032 Camden Court, University City, Mo.
KNOTTS, RAY, Prop. South Side Restaurant, 294 S. Main St., Washington, Pa.
KULMAN, LEWIS, LEWIS CLOTHING COMPANY. Old address was 1009 Main St., later associated with his father in the latter's business at 908 Main St., Lynchburg, Va.
KUPKE, JOSEPH, 8801 Fenkell Ave., Detroit, Mich. Somewhere in Texas.
LAINO, V., formerly 299 Madison Ave., also 516 5th Ave., N. Y. C.
LEGARE, W. N., former owner of Motor Service, Auburn, Ala. Reported to be at Thomaston, Ala.
LEVIN, MORRIS, 107 W. 86th Street, N. Y. C.
LONG, C. I., formerly operating as Chrysler Service Co., Cisco, Texas.
MAURICE, A., 4100 Iroquois, New Orleans, La. (Grocery & Meat Mkt.).
McBOY, ISIAH, formerly Boyce, Texas.
McCULLER, CHARLES E., Weatherford, Texas. Later reported to be at Big Spring, Texas.
MEYERS, W. D., formerly Manager, Bolo Products Co., Shawneetown, Ill.
MOODY, D. W., Seminole, Okla. Formerly at Tipton, Okla.
OLIVER, B. F., Bowie, Texas.
OLLER, GRIFFITH, Grocery and Farm, Temple, Okla.
OSBURN, T. O., formerly Booker, Texas.
PARTRIDGE, FRED C., formerly doing business as Claremont Plate Glass Company, in Claremont, N. Y. Last reported to have gone to Massachusetts.
PEARLMAN, H., Woodland Ave., Cleveland, Ohio. Reported to be in Philadelphia.
PROCTOR, HARRY F., formerly conducted business under the style of Proctor's Inc., at 611 W. 7th St., Los Angeles. Originally came from Seattle, did business in Portland, Oregon, then started a venture in Los Angeles. His business was retail women's apparel.
ROBERTS, J. C., Loco Route, Wellington, Texas. Reported to be at Lockney, Texas.
ROGERS, GEORGE W., Garage, Tipton, Okla.
ROLPH, W. T., formerly of Dayton. Now in N. Y. C.
SCHMIDT, A. A., formerly 410 Lawrence St., Corpus Christi, Texas.
SMITH, DAWSON B., formerly located at 270 Madison Ave., Akron, Ohio, in the Photo Supply business.
SPEEGLE, R. L., Route 1, Box 6, Jones Valley Motor Co., Bessemer, Ala.
STAMER, A., formerly 4616 Scovill Ave., Cleveland. Reported to be in Toledo.
STERLING, MEYER T., or C., formerly operating at 5936 Roosevelt Rd., home address 3717 Division Street, Chicago.
SULLINS, JACK, operating as Sullins Auto and Machine Shop, Breckenridge, Texas. Now reported to be at Pyote, Texas.
TILLEY, M. P., INC., formerly located at 844 Rush St., Chicago, 428 Willow Rd. Winnetka, Illinois, and Orrington Avenue, Evanston.
TOMAKA, J. V., formerly Lackawanna, N. Y.
VANDERHOOF, JOE, Oblong, Illinois. Last heard of in Okla. Retail shoe business.
VOGELSOHN, HARRY AND SAMUEL, (Props.), Expert Candy Co., 77 Norfolk St., N. Y. C.
WEBSTER, C. K., Prop. Amsterdam Drug Company, 2068 Amsterdam Ave., N. Y. C.
WIEN & COMPANY, E. J., Edward Joseph Wien, Prop., Hillside, N. J.
WITTE, A. F., Mercedes, Texas. Formerly of Chicago.
WITTENBERG (HELENA & HERMAN or H.), Mr. and Mrs., also known as Columbia Window Shade and Upholstering Co., in Window Shade and Upholstering business, last located at 198 S. Washington Street, Wilkes Barre, Pa. Previously located in Yonkers, N. Y., at 210 Nepperhan Avenue.
WOOD, W. B., formerly Big Sandy, Texas. Now reported to be in North Dakota.

Sales Quotas

(*Continued from page* 29)

gest executives, we of the automobile industry are destined to make contributions to this new science of merchant-management ranking in significance with our contributions to the sciences of mechanical design, modern efficiency, and lower costs through quantity production.

Without attempting to make excuses for the thirty years delay let me remind you that from the beginning, the business of merchandising automobiles has attracted the dramatic sales type rather than the conservative, analytical individual. It is to this first type of individual, at our factories as well as in our dealerships, that we owe the spectacular progress of the industry and in no industry have these admirable traits been so liberally rewarded.

But we are entering a new era. We, in common with other stabilized businesses, have reached a point where the profit margins are no longer wide enough to permit of loose management. Aggressive sales enthusiasm must be counterbalanced with sound business planning based on adequate facts. The successful dealer of the future will apply the same intensive effort to his budgetary planning as he does to his sales technique—and the far-sighted manufacturer, in the control of his production schedules and in the development of his dealer policies, will take full cognizance of the facts disclosed by the dealers' accounting records.

It is my prediction that the big rewards will continue to go to the sales type of individual whose aggressive enthusiasm and resourcefulness will be applied to the problems of retail management through scientific control.

Sales and Collections

(*Continued from page* 32)

this reacts unfavorably on retail trade.

RHODE ISLAND: Sales prospects are optimistic. Stocks on hand are at a minimum and no summer slump is expected. Commodities such as machine tools are ordered from hand to mouth. Woolen textile mills are operating at 50 per cent. of their capacity but orders that are now coming in point to increased production in the near future.

TENNESSEE: Late spring is blamed for the slowness in collections and sales in Tennessee. Furniture manufacturers and jobbers report sales as very slow in their lines but hosiery and textile manufacturers report an improvement.

UTAH: The drop in metal, wool, and lamb prices will cause collections to be slow for some months to come. Sales are gradually improving but credit extension is cautious.

TEXAS: Good rains over the Western part of the State during the past week will be of untold benefit to crops and cattle ranges and should reflect on sales and collections to some extent. The building activity in Ft. Worth still seems to be on the upward trend, and the City has just voted to dispose of a $1,000,000.00 in bonds with which to improve the highways and bridges in the County. The Texas & Pacific Ry. Co. will soon begin the erection of a new Union Station costing in the neighborhood of $3,000,000.00 and the Santa Fe also plans to erect a new Station in the near future, before the end of the year. Locally, unemployment seems on the decline despite the fact that liquidations are still numerous, the automobile dealers apparently heading the list. Cattle sales in the Ft. Worth market during the past week were the lowest for several years, and shipments by the packers were considerably below normal. Collections and sales have been slow since Christmas rush but have revived greatly since April 1. Prospects look good.

WASHINGTON: There has been an increase in the number of claims coming to the local Associations for collections and the amount collected on the large claims has decreased. As soon as the lumber trade picks up, general business conditions will improve.

WEST VIRGINIA: Sales and collection conditions are on the average "Fair". Wheeling reports sales in the majority of manufacturing lines are larger than those for the same month in 1929.

WISCONSIN: Milwaukee reports marked gain in collections and sales.

JEST FOR FUN

Nothing to Do

EXECUTIVE (Interviewing applicant for responsible position): "Are you absolutely honest, straight-forward and trustworthy?"
APPLICANT: "Yes, indeed, I am Sir!"
EXECUTIVE: "If you should enter this office tomorrow morning and find a wallet containing $100,000 what would you do?"
APPLICANT: "What would I do? What would I do? I'd do nothing and live on my income!"

Merely a Loan

MRS.: "Why do you give so much money to beggars?"
MR.: "Well, one can never tell when one of them might help a fellow out in case he needs to borrow."

What a Bonus!

A merchant known to have an exaggerated thrift complex, upon balancing his books at the end of the financial year found that the profits greatly exceeded even his wildest expectations. He was so overjoyed he called his employees together and said:
"Well, my good people, this has indeed been a very fine year and to show my gratitude for the good work you have done I am going to give you each a bonus check and if you do as well during the next twelve months I'll sign them."

Positive Proof

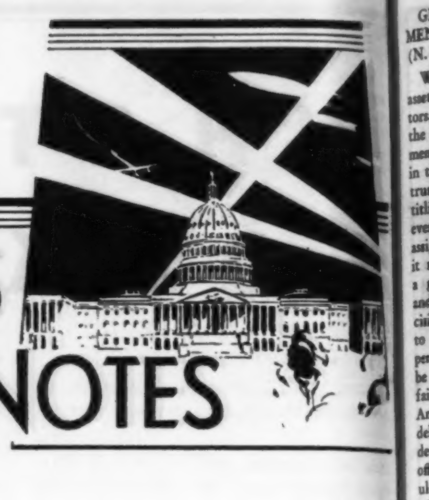
CALLER: "Are you certain that the Office Manager has gone for the day?"
OFFICE BOY: "Sure, you don't see anybody working, do you?"

Do You Agree?

HUSBAND (After a heated discussion): "At any rate, men are more valuable than women."
WIFE: "How utterly nonsensical!"
HUSBAND: "That's a fact. Every man has his price; but aren't brides given away?"

—*Sure Enough Humor*

CREDIT MONTHLY



COURT DECISIONS AND WASHINGTON NOTES

FIXTURES. MORTGAGE. CONDITIONAL SALE.

Lowery Apartments, Inc., is the owner of the premises. On August 29, 1927, the plaintiff agreed to loan to Lowery Apartments, Inc., $160,000, in instalments, to be secured by mortgage upon the premises and fixtures and appurtenances. The final advances were to be made when the house was completed and "the gas ranges, ice boxes and overhead dryers are in place." Lowery Apartments, Inc., on August 31, 1927, executed and delivered to plaintiff a mortgage on said premises, fixtures and appurtenances, which was recorded September 3, 1927. It contained this clause: "Together with the building and improvements erected or to be erected thereon and all fixtures and articles of personal property now or hereafter attached to or used in connection with the premises, all of which are covered by this mortgage." The last advance under the mortgage was made, on October 31, 1928, at which time the gas ranges, ice boxes and overhead dryers were in place. The plaintiff had no knowledge or notice of the conditional sale agreement between Lombardo, the defendant, and Lowery Apartments, Inc. The conditional sale agreement was never filed. The ranges were installed July 16, 1928. The defendant threatens to remove them, and plaintiff demands that defendant be restrained from so doing. The question is: Did the mortgagor have title to the gas ranges, so that they became in part the subject-matter of a mortgage executed by it. Held that plaintiff was within the meaning of section 65, Personal Property Law, a "purchaser" who "without notice of such provision" purchased the gas ranges before the contract for their sale had been filed. Consequently, the condition reserving title was void and the mortgage upon chattels created a lien upon the ranges in the possession of the mortgagor, as fully as would have been the case had an absolute title thereto been acquired. Judgment in favor of plaintiff. *Lloyds First Mortgage Corp. vs. Lombardo,* Sup. Ct. App. Div. 2nd Dept. Decided November 22, 1929.

* * *

INSOLVENT BANK. AMOUNT OF DIVIDEND. (ARK.)

In the case of an insolvent bank in the hands of the State Bank Commissioner for administration of its assets, *held* that when a creditor files a claim against the insolvent bank he must file it for the full amount due at that time. If the claim is secured by collateral and he collects anything from such collateral before a dividend is paid, his dividend must be calculated on the amount of his claim as reduced by the amount of collateral collected, and likewise as to future dividends, preceded by collections on collateral. In other words, the creditor is entitled to a dividend on the amount of his debt at the time the distribution is made, and not to a dividend on the claim as originally filed, if anything has been realized from collateral. *Merchants National Bank of Fort Smith vs. Taylor.* Supreme Ct. Arkansas. Decided March 17, 1930.

* * *

OFFER OF COMPOSITION. RECOMMENDATION OF REFEREE. DISCRETION OF JUDGE.

The alleged bankrupt made an offer of composition to his creditors, a majority in number and amount consenting. The referee recommended that the offer of composition be not confirmed, on the ground that the real estate transactions were of a character that required legal inquiry and should be taken into consideration in determining whether the proposed composition is for the best interests of the creditors. Thereupon the district judge denied the petition for composition and the bankrupt appealed. The question is whether the judge abused his discretion. *Held* that while consent to a bankrupt's offer of composition by a majority of his creditors in number and amount is evidence that it is for their best interests, and therefore properly to be considered by the judge in passing on the question, such evidence being only prima facie is not controlling upon him. Such a decision rests wholly within his discretion. This court will not on appeal disturb the action of a district judge based on his discretion unless it clearly appear that he has abused his discretion or has grounded his action on a plain mistake of fact. Finding in this case neither one of these exceptions to the rule, the order of the district judge is affirmed. *Matter of Yountie.* U. S. C. C. A. 3rd Cir. (N. J.) Decided February 28, 1930.

* * *

CONDITIONAL SALE. RETENTION OF TITLE. STATE LAW. (ILL.)

On December 14, 1928, appellant, Burroughs Adding Machine Co., sold and delivered to bankrupt, under what is admittedly a conditional sales contract, one cash register. The adjudication in bankruptcy was on February 23, 1929, and a reclamation petition, filed March 12, 1929, to take the cash register from the trustee, was denied. The contract provided that the title should remain in the vendor until the purchase price was fully paid in cash. It was also provided: "If the total purchase price is paid with the order, or within ten days of invoice date, a discount of 2% on the cash involved will be allowed. From and after the expiration of 30 days, interest will be charged at 6% per annum on all unpaid balances." Appellee's position is that the purchase price became due within thirty days after the date of the contract, and that because appellant did not then take possession it is estopped from asserting any rights as against the trustee. All questions here involved, except that of estoppel, were decided in John Deere Plow Co. v. Hamilton, 19 Fed. (2d) 965. *Held* that appellant retained the title in a manner sanctioned by the law of Illinois, and that title did not, because of its failure to pay the purchase price, pass to the bankrupt. Appellant did no act, either of omission or commission, on the faith of which the trustee changed his position. Order of the District Court reversed. *Matter of Erco Amusement Co.* U. S. C. C. A. 7th Cir. (Ill.) Decided March 3, 1930.

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OFFER OF COMPOSITION. LISTING OF CREDITORS.

Petition by three creditors to compel the bankrupt to deposit a sum of money for their share of an offer of composition, which had been confirmed by the court. The contention of the bankrupt is that by listing a creditor with the notation that his claim is disputed a bankrupt may obtain all the advantages and incur none of the obligations which follow from offering a composition to his creditors; that is, the disputed claim, should it turn out to be good, will be discharged by the confirmation of the composition, but there is no obligation to provide for the contingency that the claim may be valid in depositing the consideration to be paid to creditors under the terms of the proposed composition. *Held* that provision must be made in the offer of composition to pay such creditor his proportionate share of the composition. A composition should not be confirmed until consideration for a disputed claim has been deposited or security given, assuming that giving security may be deemed the equivalent of the statutory requirement that consideration be deposited. The composition in the case at bar ought never to have been confirmed without making provision for payment of the composition dividend to appellants in the event that their claims should be established. Further, if the referee has no jurisdiction of a petition but the court has, the court should, when the order of dismissal is presented to it, retain the petition as an original proceeding. No danger is apparent in such a rule of procedure and it will prevent unnecessary delays in administration. As the bankrupt relied solely upon the supposed lack of jurisdiction, an opportunity should be allowed to contest the appellants' claims. *Matter of Everick Art Corp.* U. S. C. C. A. 2nd Cir. (N. Y.) Decided March 3, 1930.

GENERAL ASSIGNMENT. MISMANAGEMENT BY ASSIGNEE. COMPENSATION. (N. Y.)

Where, as here, a debtor transfers all his assets to a trustee for the benefit of all his creditors, the instrument is, within the meaning of the Debtor and Creditor Law a general assignment. The inclusion of a clause, such as that in the second paragraph of the so-called deed of trust produced at the hearing ostensibly entitling the assignee to defeat the transfer in even he discovers he has been misled by the assignor, does no change the situation; nor does it remove the document from the definition of a general assignment embodied in the Debtor and Creditor Law itself or established by the decisions of the New York courts. With respect to trustees it is thoroughly settled that compensation may, and should, be denied them if it be shown that they are guilty of neglect, unfaithfulness, mismanagement or misconduct. Among the respects in which the State law was deliberately violated were the following: The deed was not recorded in the county clerk's office (sec. 3.) No inventory of assets or schedule of creditors was filed in the county clerk's office (sec. 4). The trust property was sold without the assignee giving bond (sec. 6). Ten days' notice by mail of the proposed sale was not given to creditors (sec. 12). The sale was had without procuring an order of court or otherwise proceeding under the direction of the court (secs. 14-20). If general assignments were allowed to be handled in the loose way pursued in this case, the hazard to creditors would be great. It is the duty of this court to put the seal of its disapproval on such conduct. The most appropriate and the most effective way in which to do this is to deny the application of the assignee for compensation and expenses out of the funds of the estate. *Matter of Polansky,* U. S. Dist. Ct. Southern Dist. of N. Y. Decided March 11, 1930.

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INSOLVENCY. VOLUNTARY TRUST. LIABILITY OF TRUSTEE AND ATTORNEY. SUMMARY RELIEF.

Before May 14, 1928, Schwartzberg Bros., occupied premises known as No. 1374 Third Avenue, Borough of Manhattan, where they conducted a retail business. They had financial troubles and were desirous of effecting a settlement with their creditors, and on that day executed a deed to trust to Henry J. Greenstein, as trustee for the liquidation, and gave the trustee authority to continue the business of the debtors, the continuation to be within the discretion of the trustee. The trustee accepted the deed of trust, and on the same day, May 14, 1928, the trustee went into possession of the premises. The trustee continued in possession until the 26th day of May, 1928. During this period, the assets were sold for $1,000. After deducting the expenses, the sum of $845.85, was turned over to the trustee. Out of this sum was paid the expenses and counsel fee incidental to the administration, and the creditors who chose to file their claims received dividends aggregating 33 to 35%. One creditor, the petitioner here, was not paid these dividends because he did not recognize the trust arrangement. This creditor seeks to recover rent for the unexpired period of a lease after use and occupation was terminated. He instituted an action against Schwartzberg Bros., seeking to recover rent and obtained judgment on November 28, 1928, and thereafter issued execution which was still unsatisfied prior to March 11, 1929, when this motion was made for summary relief not only against the so-called assignee or trustee, but also against assignee's attorney, as though this matter were a voluntary assignment proceeding under the Debtor and Creditor Law. *Held* that a summary motion to turn over moneys alleged to be due against the trustee was unauthorized by any practice prescribed in our law. As to the attorney in the settlement matter, since there was no relation of attorney and client between the respondent Winer and the petitioner, a summary order was clearly unauthorized as to him. Order reversed and motion denied. *Matter of Schwartzberg.* Supreme Court, App. Div. 1st Dept. Decided February 14, 1930.

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SALE TO MINOR. DISAFFIRMANCE. AGENT. LIABILITY. (IOWA.)

Clyde Hubler, a minor, owned a Ford touring car. The Gates Used Car Exchange and Lukavsky Auto Sales Company were engaged in business in the city of Marshalltown. The minor entered into a contract of exchange for a Chrysler automobile owned by the Lukavsky concern. At that time, there was transferred to him the Chrysler car, and the minor gave in exchange his old car, $30.00 in cash and his note for the difference. A few days later, the minor disaffirmed the contract, returned the Chrysler car, and brought this action to recover what he had given in exchange for said car. His note was by decree cancelled. The trial court rendered judgment against all the defendants. From this judgment Fred W. Gates and the Gates Used Car Exchange appeal. It is the contention of the appellants that the judgment as against them is unwarranted, because, as claimed, the Gates concern did not contract for itself, was in no way interested as principal, but acted only as agent for the Lukavsky concern. *Held* that the record clearly reveals that the Gates concern was acting only as the agent of the Lukavsky concern; that the minor was fully informed of this fact; that Gates was only the means of bringing Lukavsky and the minor together; that Gates acted within and did not exceed his authority. While upon disaffirmance of the contract, the minor was entitled to all that he gave for the Chrysler automobile, he was only entitled to receive it from the Lukavsky concern, the one with which he dealt, and not from its agent. Reversed. *Hubler vs. Gates et al.* Supreme Ct. Iowa. Decided March 18, 1930.

The WASHINGTON NOTES following are supplied by George C. Shinn, attorney-at-law, Wilkins Building, Washington, D. C.

Recent Department of Commerce Publications

Several documents recently issued by the Department of Commerce are of value, in a general way, to financial, business, and educational interests of the country. Following is a list of the latest:

An economic review of Finland, giving the present status of the business conditions in that country, and its future possibilities.

The Declaration of Independence and The Constitution of the United States, giving a history of these documents, with citations of cases construing them. There are four separate documents, one being the Constitution and Declaration of Independence, under one cover, 46 pages, with index, 10 cents a copy; a facsimile of the Declaration of Independence, suitable for framing, 15 cents a copy; The Story of the Declaration of Independence, a 20-page pamphlet, 5 cents a copy; Constitution of the United States, as amended to Deecmber 1, 1924, with citations of cases in the Supreme Court, 876 pages, $2.50 a copy.

Markets for fuel oil burners in the Eastern Hemisphere, compiled by representatives of the Department of Commerce in Japan and other far east countries.

Market for foodstuffs in Guatemala, of value to American exporters.

Markets for fruit juices and fruit sirups in Continental Europe, compiled in the Foodstuffs Division.

All these documents may be obtained from the Superintendent of Documents, Washington, D. C., the prices being very reasonable.

An Ounce of Prevention Worth a Pound of Cure

"Domestic Commerce," issued by the United States Department of Commerce, calls attention to the lack of good business practices being the cause of a great many bankruptcies and business failures. It says:

"Good business practices such as taking inventory, keeping careful accounts, and avoiding improper extensions of credit might have obviated 43 out of 55 cases of business failures already analyzed in the Newark bankruptcy study in which the Domestic Commerce Division is cooperating."

"This bankruptcy clinic for sick business, described in Domestic Commerce for November 25, includes the more personal factors contributing to the failures, retailers' business methods, and the extent to which the abuse of credit extensions influence the collapse. Real estate and other speculation by the bankrupt was found largely responsible for ten out of the forty-three failures. It was indicated that health, automobile, burglary, and fire insurance might have prevented some of the other failures, or at least have minimized the losses."

"While definite conclusions on the strength of the small sample covered would be premature, the investigators are convinced that prevention is more necessary than an attempt to salvage business wrecks. Education of the business community by more detailed credit studies and widespread dissemination of the findings was suggested as one remedy for the conditions uncovered in the study to date. The study is expected to establish also the necessity of some more effective control of the debtor who has not conformed to the normal. It has been suggested that the isolation of such persons not only would protect the community against future injury by the individual quarantined, but would act as a deterrent to those who are inclined to feel that their own conduct is a matter of indifference to the community, which must share the burden of their ultimate collapse."

"The study will not be completed for several months and no further information on the findings is available at present. As soon as the report is issued Domestic Commerce will carry an announcement to that effect."

Bankruptcy Matters

The Judiciary Committee of the House of Representatives recently held hearings on the following proposed amendments to the Bankruptcy Law:

Bill, introduced by Representative Graham, for the purpose of amending an Act approved July 1, 1898, establishing a uniform system of bankruptcy throughout the United States, and Acts amendatory thereof.

Bill, introduced by Representative Graham, for the purpose of amending an Act relating to the judiciary, for the purpose of fixing the time and manner of filing claims in suits in equity in district courts of the United States.

Measure, introduced by Representative Graham, to amend an Act approved March 3, 1911, relating to the judiciary, for the purpose of enabling receivers to sue in district courts of the United States other than those of their appointment.

Bill, introduced by Representative Graham, to amend Act approved March 3, 1911, relating to the judiciary, for the purpose of extending the jurisdiction of receivers appointed by the district courts.

It is thought that some action on these bills will be forthcoming in the very near future.

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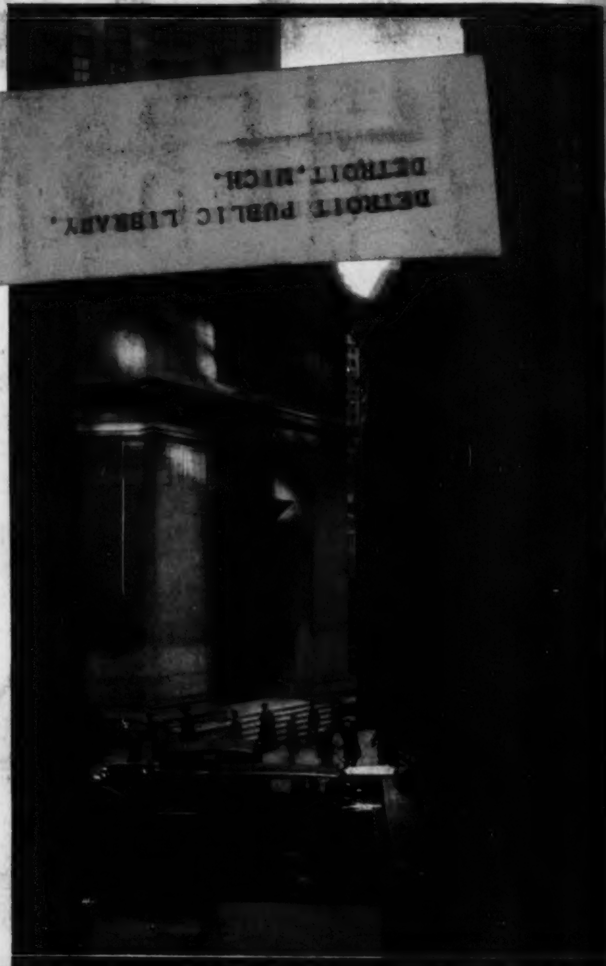

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